

# The Coca-Cola Company

Annual Report 1987



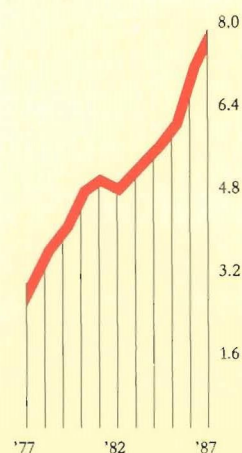


Year Ended December 31,	1987	1986	Percent Change
Net operating revenues	\$7,658.3	\$6,976.6	9.8%
Operating income	\$1,323.8	\$ 897.1	47.6%
Income before income taxes	\$1,410.2	\$1,403.5	.5%
Net income	\$ 916.1	\$ 934.3	(1.9%)
Net income per share	\$ 2.43	\$ 2.42	.4%
Dividends			
Cash	\$ 1.12	\$ 1.04	7.7%
In-kind	\$ .90	—	—
Shareholders' equity at year-end	\$3,223.8	\$3,515.0	(8.3%)
Net income to average shareholders' equity	27.2%	28.8%	
Book value per share	\$ 8.66	\$ 9.13	
Closing market price per share	\$ 38.13	\$ 37.75	
Ratio of market to book value	4.4	4.1	

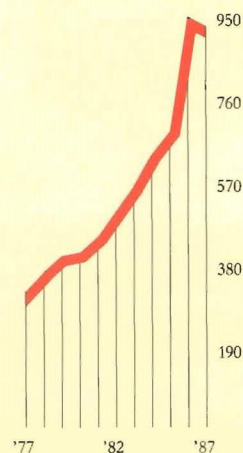
Operating income was reduced by provisions for restructured operations and disinvestment aggregating \$36 million in 1987 and \$180 million in 1986. Operating results include pretax gains of \$40 million resulting from the sale of stock by T.C.C. Beverages Ltd. in 1987, and \$375 million resulting from the sale of stock by Coca-Cola Enterprises Inc. in 1986.

Financial data for 1986 has been restated to reflect the investments in the Company's Entertainment Business Sector and T.C.C. Beverages Ltd. under the equity method of accounting due to reductions in the Company's ownership interest to approximately 49 percent.

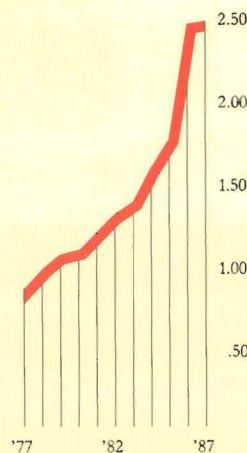
**Net Operating Revenues**  
(\$ Billions)



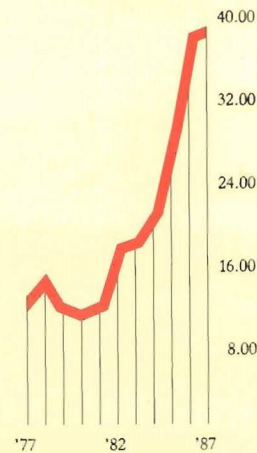
**Income From Continuing Operations**  
(\$ Millions)



**Income Per Share From Continuing Operations (\$)**



**Closing Market Price Per Share (\$)**





**T**he heart of The Coca-Cola Company is selling soft drinks to a

thirsty world, one drink at a time, more than

524 million times a day...and counting.



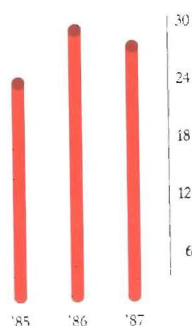
## The Company's Purpose

TO OUR SHAREHOLDERS: Again, we are able to report to you on a year of significant, positive change for The Coca-Cola Company. In 1987, your Company achieved outstanding growth in its core business—the production and marketing of soft drink syrups and concentrates. We established independent structures for some of your Company's largest equity investments and continued to implement vigorous financial policies.

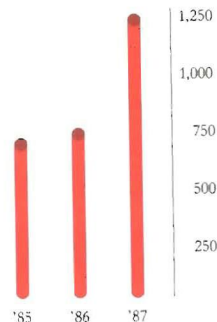
When we assembled our present management team in 1981, we developed a strategy to guide our actions through this decade and beyond. The strategy was designed around a single objective: increasing shareholder value over time. Seven years later, that strategy continues to serve you well. While talk of “increasing shareholder value” has become commonplace in recent years, The Coca-Cola Company has implemented specific steps that give meaning to the phrase. Last year, your Company again increased shareholder wealth through creative, decisive actions, posting an impressive 27 percent return on your equity.

These actions produced a 6 percent increase in soft drink unit volume, outstanding market share gains and a cash flow of approximately \$1.2 billion. Your Company also enjoyed record operating income of \$1.3 billion and earnings per share of \$2.43. Excluding 35 cents per share of unusual items in 1986, operating income climbed 23 percent, while net income gained 14.5 percent to \$916 million, and net income per share increased 17.4 percent. These outstanding results are a tribute to the commitment of our associates worldwide, the guidance of our Directors and your support.

**Return on Shareholders' Equity (%)**  
(Income from Continuing Operations to Average Shareholders' Equity)



**Net Cash Provided by Operations (\$ Millions)**



**Total Return vs. S&P 500 (\$)**  
Based on \$100 investment on 12/31/84, including dividend accumulation







*Roberto C. Goizueta, Chairman, Board of Directors, and Chief Executive Officer (right), and Donald R. Keough, President and Chief Operating Officer.*

Reflecting the dynamic nature of The Coca-Cola Company, this annual report has been designed to communicate concisely the scope of our worldwide soft drink business system—the bedrock of your investment—and the specific plans we are implementing to enhance the worth of that investment. The report also includes an update on your Company's significant equity investments. We urge you to read it carefully, reflecting on the past year's actions and results and appreciating the full range of opportunities that awaits. You may be certain that we continue to lay the groundwork for future growth in the value of your investment.

Roberto C. Goizueta  
Chairman, Board of Directors,  
and Chief Executive Officer

February 18, 1988

Donald R. Keough  
President and  
Chief Operating Officer



## The Company's Scope

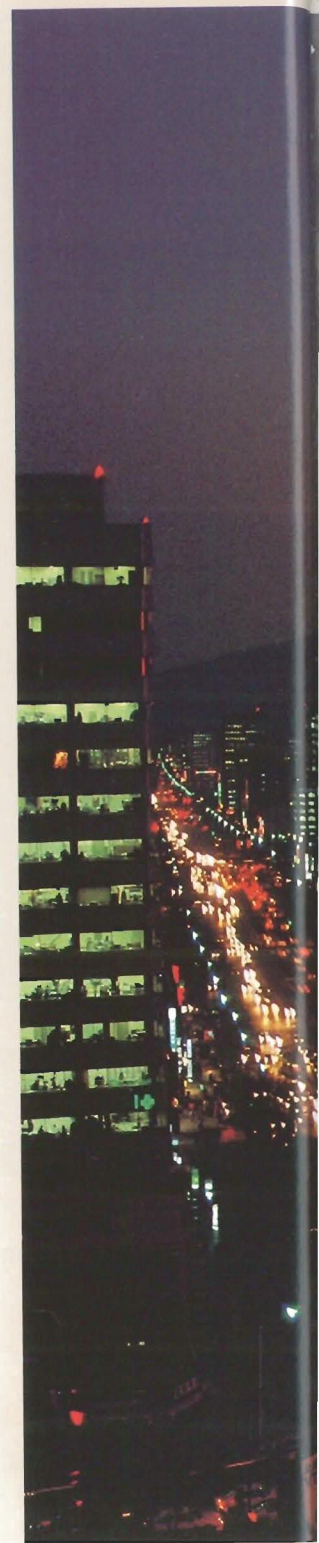
Coca-Cola is the world's best-known trademark. The Coca-Cola Company is the world's leading marketer of soft drink syrups and concentrates, with 1987 volume double that of our nearest competitor.

Syrup and concentrate sales, however, only hint at the scope of the Company's business. The Company is also the hub of the largest production and distribution system in the world. Through a network of independently owned bottlers, Coca-Cola is available in more than 155 countries; Company brands account for more than 44 percent of all soft drinks sold worldwide, excluding the Soviet Union and China. Each day, consumers enjoy more than 524 million servings of Coca-Cola and other Company soft drinks.

While The Coca-Cola Company itself employs approximately 17,000 people, the global Coca-Cola system provides more than 500,000 full-time jobs and part-time work for at least 500,000 additional people. In 1987, our system generated approximately \$50 billion in retail sales. Using the commonly accepted multiplier factor of five, this \$50 billion in sales added an estimated \$250 billion to the world economy.

Complementing its core soft drink business, the Company has significant investments in the soft drink bottling/canning and entertainment industries. The market value of these investments was over \$2.3 billion at the end of 1987. In addition, The Coca-Cola Company is the leading marketer of fruit juices in the United States and Canada.

Coca-Cola, it sometimes seems, is everywhere. And yet, given our recent growth and our worldwide opportunities, it is apparent that the size and scope of our system, the pervasiveness of our products and trademarks, can only increase.







*Coca-Cola, the world's best-known trademark, symbolizes the Company's presence in more than 155 countries.*



## The Company's Businesses

The Coca-Cola Company is first and foremost a marketer of soft drinks.

Accounting for more than 95 percent of operating income, this core business is characterized by rapid volume growth, high margins, strong cash flow, low capital requirements and high return on investment.

We are also committed to our complementary businesses, soft drink bottling and canning and entertainment, and to our foods business. Last year, in order to match the individual characteristics of these businesses with appropriate financial policies and to maximize operating efficiencies, we continued to establish independent capital and corporate structures for certain of their units. The soft drink bottling companies in which we hold significant investments expanded their businesses, developing increased operating effectiveness and generating sizeable volume and profit gains. We also reorganized our participation in the entertainment industry so that the newly created Columbia Pictures Entertainment, Inc., could best achieve its full potential for growth and returns. As a result of these actions, equity income became a more important line item on our income statement.

Coca-Cola Foods experienced a decline in earnings while restructuring its business systems for future growth in a highly competitive industry. Our foods business is obviously in transition, and we have begun taking steps to reestablish it as a vibrant and growing enterprise.







*Setting the pace for the Pacific Basin, Japan was the Company's top soft drink profit contributor in 1987.*



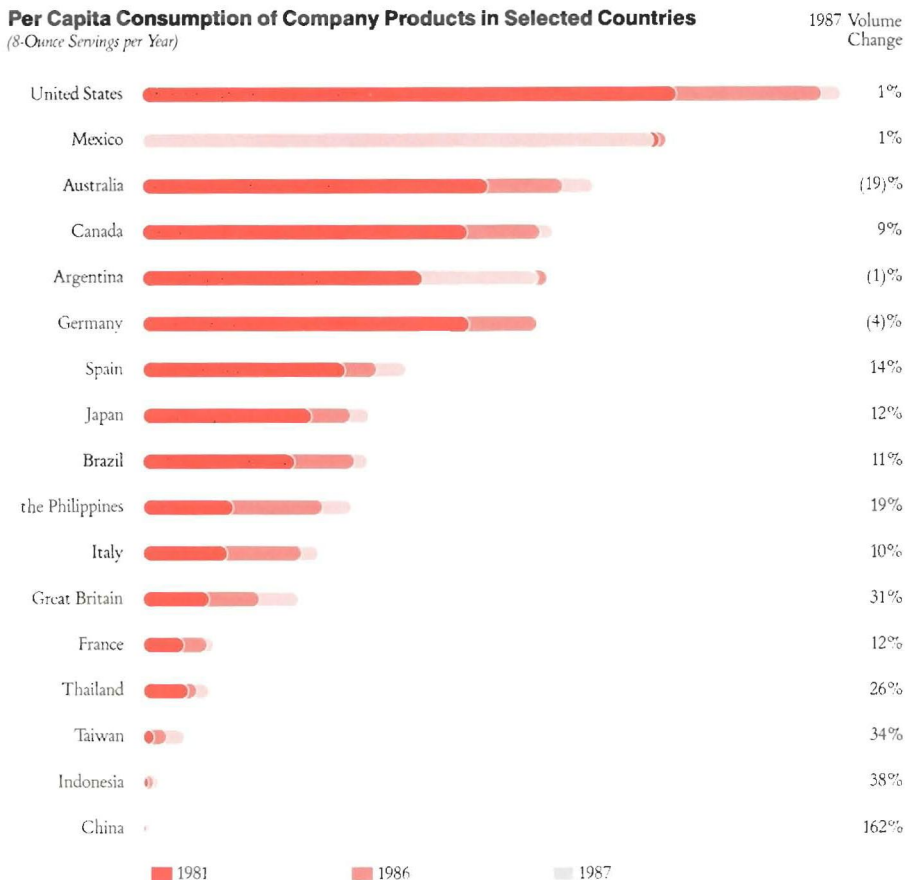
## THE COMPANY'S BUSINESSES

**SOFT DRINK SYRUPS AND CONCENTRATES**—In simplest terms, our core business consists of selling soft drink syrups and concentrates to our bottling partners and fountain customers around the world. The Coca-Cola Company thrives, however, by expanding and reinforcing the image of the Coca-Cola trademark; offering top-quality service to our customers; ensuring that our bottling/canning partners are the low-cost producers in their markets; and, ultimately, providing consumers worldwide with a consistent, inexpensive source of top-quality refreshment.

Operating within this framework, our soft drink operations in 1987 generated 6 percent growth in volume and a 21 percent operating income gain, excluding unusual items in 1986.

**International**—Operations outside the United States produced 65 percent of our total volume and accounted for approximately 77 percent of total soft drink operating income. Even after many years of strong volume growth, international markets have considerably

**Per Capita Consumption of Company Products in Selected Countries**  
(8-Ounce Servings per Year)





lower soft drink per capita consumption rates than the United States, providing the Company opportunity for even greater growth (see table on page 8).

Our ability to capitalize on this opportunity was evident in 9 percent volume growth in our international soft drink markets in 1987. Excluding unusual items in 1986, international operating income advanced 25 percent, aided by a 16 percent strengthening of key currencies against the U.S. dollar.

The post-mix (fountain) segment of our international soft drink business recorded an 18 percent increase in unit volume, the 12th straight year of double-digit growth. The use of post-mix dispensers is not yet widespread internationally, however, and our goal is to make Coca-Cola *the leading commercial beverage of any kind* in international on-premise markets. This ambitious goal, which will require even higher annual growth rates in this segment of our business, is within our reach, however, for the simple reason that, compared with most other beverages, post-mix soft drinks are more profitable for retailers.

The strength of our trademarks and our status as low-cost producer in most of the 155 countries where we do business allow us to drive volume by pursuing a “3 A’s” strategy of increasing the availability, affordability and acceptability of our products. The relatively developed markets of *Western Europe* and *Australia* continue to build volume in just such a manner. Cooler, vending and post-mix programs are expanding product availability, especially in *Germany, Spain, Great Britain* and *Italy*. Marketing programs help increase acceptability, as Coca-Cola, diet Coke/Coca-Cola light, Sprite and Fanta lead growth in increasingly diversified markets. One-way containers, which account for a substantial part of our growth in Western Europe, make our products more convenient for the consumer, while larger package sizes make them more affordable.

In its first year of operation, a new British bottling/canning joint venture, Coca-Cola & Schweppes Beverages Limited, produced 31 percent volume growth for Company products. In Germany, poor weather and price increases caused volume to decline 4 percent, while increased margins and favorable exchange rates helped create a significant operating income gain. By reorganizing Germany’s fragmented bottling system into a stronger and more efficient



## THE COMPANY'S BUSINESSES

network, the number of bottling entities had shrunk to 68 at year-end, compared to 102 in 1984. We are also planning structural changes to our bottling systems in other European countries.

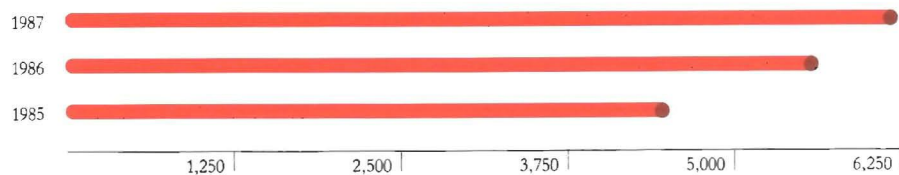
In *Canada*, 9 percent volume growth and higher operating income were posted for the year. We formed T.C.C. Beverages Ltd. out of our former Canadian bottling operations and then sold 51 percent to the public, creating an independent, publicly traded company. T.C.C. Beverages handles more than 70 percent of our volume in Canada.

In *Japan*, a unique beverage marketplace and the Company's leading soft drink profit contributor in 1987, we celebrated 30 years of business by generating a 12 percent volume increase. Growth resulted from refocusing our marketing efforts on brand Coca-Cola and the success of Georgia Coffee, an important product in Japan. The strength of the yen allowed us to report even higher operating income, while also making substantial investments in the long-term health of our Japanese system.

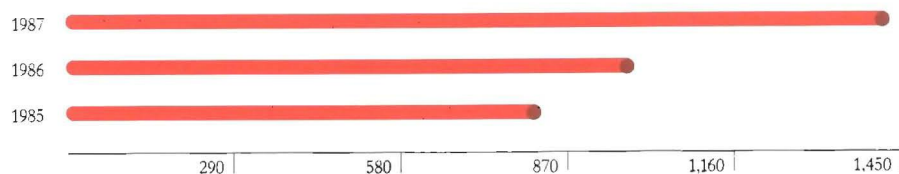
The vast size of the Japanese soft drink market—virtually non-existent only three decades ago—exemplifies the potential of the rest of the *Pacific Basin*, a densely populated area characterized by rapidly developing economies, youthful populations and stable governments. We and our bottling partners are investing heavily in the region, particularly by building production and distribution infrastructures (*e.g.*, bottling

### SOFT DRINKS BUSINESS SECTOR

#### Net Operating Revenues (\$ Millions)



#### Operating Income (\$ Millions)







*Greatly strengthened by the formation of Coca-Cola & Schweppes Beverages, the Company last year recorded 31 percent volume growth in Great Britain.*

plants, trucks, coolers, vending machines) capable of generating rapid, sustained, profitable volume growth.

In the Philippines, where we entered into our first bottling joint venture in 1981, the revitalized bottling system continued to produce double-digit volume increases, with a 19 percent gain for 1987. We are pursuing similar opportunities now in Taiwan and Indonesia. In its first year of operation, our joint venture in Taiwan doubled our volume there. Our equity participation in the Jakarta bottling operation is quickly building a much-needed infrastructure that will help provide a model for developing our business throughout Indonesia. In Thailand,

our system's emphasis on the 3 A's strategy generated 26 percent volume growth. No country holds greater long-term potential than the *People's Republic of China*, where seven bottling facilities are now serving the local market exclusively. Our Chinese partners expect to add three additional bottling facilities by 1989.

The Company is also building for the future in *Latin America*, a market characterized by tremendous unit volume and low profit margins. The key to profitable growth in these circumstances is to keep price increases in line with inflation. We reinforced our Latin American system in 1987 by adding several local partners who are better able to deal with the challenging fiscal environment. New local ownership of our bottler in Rio de Janeiro, for example, helped volume in *Brazil* grow 11 percent. Volume in *Puerto Rico* was up 18 percent, while volume in *Central America* increased 27 percent.

In the underdeveloped soft drink markets of *Eastern Europe*, *Africa* and the *Middle East*, generating growth is an equally challenging yet entirely different task. Within the highly regulated and protected economies of Eastern Europe, the Company continues to push ahead patiently. The most visible example of this thrust is the *Soviet Union*, where Fanta is immensely popular and Coca-Cola volume has continued to grow since its 1985 introduction.

*United States*—Coca-Cola USA, the Company's domestic soft drink division, pursued increased operating efficiencies and continued to consolidate its distribution system. Retail case sales advanced 6 percent, while shipments grew 1 percent, due to bottler concentrate/syrup inventory reductions. Excluding the impact of unusual items in 1986, operating income advanced 10 percent.

With the highest soft drink per capita consumption rate in the world, the United States represents a fast-moving target for the Company's non-U.S. operations. Americans consumed an average of 203 eight-ounce servings of Company soft drinks in 1980. In 1987, they consumed 274, a 35 percent increase. In partnership with our bottlers, we intend to drive this number to 315 by 1990.

While building volume is the fundamental formula for generating enhanced cash flow in other parts of the world, Coca-Cola USA pursues a more complex strategy in the highly developed, intensely competitive U.S. market. It deploys its resources against the





*Continually expanding the power of the Coca-Cola trademark, the Company is strengthening its identification with Brazil's national pastime, soccer.*

objectives of increasing its already substantial volume base, while simultaneously improving operating efficiencies. The outlook for continuing to achieve both objectives is bright.

Case volume for the U.S. soft drink industry grew in excess of 4 percent in 1987, much of it attributable to our 6 percent growth. Case volume for the division is projected to increase faster than the 4 percent annual rate forecast for the industry over the next few years.

Coca-Cola USA made great gains in efficiency in 1987, most notably by consolidating several syrup production facilities while increasing its shipments of



## THE COMPANY'S BUSINESSES

soft drink concentrates to bottlers. Unlike syrups, concentrates contain very little water and generally do not contain sweetener, resulting in lower transportation costs and a more efficient means of producing soft drinks in bottling and canning plants. Fountain outlets continue to be serviced with syrups.

Reflecting the emergence of fewer, more efficient, more competitive bottling companies, Coca-Cola USA has realigned its organization to suit changing needs and eliminate duplication of effort. We are facilitating the development of a more efficient bottling system, as well as anticipating and adapting to new realities created by similar trends among suppliers and customers.

Increased efficiencies from these evolutionary trends are ultimately being passed along to consumers in the form of greater value at retail outlets. This drives volume gains. Accordingly, Coca-Cola USA unit volume is both growing, and growing more profitable.

The emphasis on efficiency has also been extended to marketing, another primary function of Coca-Cola USA. A disciplined focus of marketing resources on the Coca-Cola, Sprite and Minute Maid brands is helping to build business. Coca-Cola classic, the nation's number-one soft drink, enjoyed 10 percent growth in food-store sales; its growth helped extend the division's lead in the cola category, which accounts for 62 percent of the food-store market, to the widest gap in more than 10 years. Diet Coke enjoyed another year of double-digit growth, and the Company's one-calorie soft drinks captured more than 10 percent of total U.S. soft drink industry sales.

Another Coca-Cola USA strength, the fountain business, grew even stronger, with a net gain of 14,000 new-outlet accounts and increased sales to existing customers. Coca-Cola USA has the largest share of the fountain segment, outselling its nearest rival by more than 2-to-1. Over the past four years, the division has captured nearly three-fourths of the segment's growth, enjoying a 6.5 percent compounded annual volume growth rate. Coca-Cola USA's lead over its competitors is even greater in chain restaurant and fast-food accounts, which comprise roughly three-fourths of the division's fountain volume. Last year its growth in those accounts more than tripled that of its nearest competitor.

The division also introduced a proprietary soft drink dispenser targeted at



*Consumers are enjoying greater value at retail outlets due to increased operating efficiencies throughout the Company's U.S. system.*

the largely undeveloped small-business segment. This unique technology continues Coca-Cola USA's development of non-traditional sources of volume growth.

**FOODS BUSINESS** — Coca-Cola Foods continues to operate in a difficult business climate. Although chilled orange juice volume increased 5 percent, and frozen orange juice volume increased 3 percent, operating income decreased, due in part to a \$36 million provision for business system changes. Increased spending on advertising and trade promotions, along with higher prices for orange juice solids, also contributed to the slippage in operating income. Opportunities for strong, profitable growth do exist, however.



## THE COMPANY'S BUSINESSES

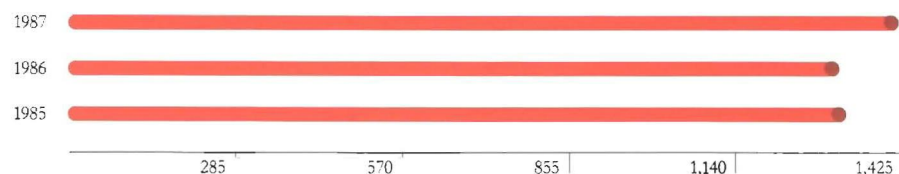
With more than 40 percent of its operating income coming from the Minute Maid trademark, Coca-Cola Foods is primarily a marketer and producer of juice and juice-based products in the United States and Canada. The fruit juice and drinks industry is projected to grow moderately over the next decade, and we began taking steps in 1987 to enable Coca-Cola Foods to outpace its competitors. We intensified our focus on our primary business, orange juice. We developed a new internal structure for our U.S. sales force, creating operating efficiencies while better addressing our customers' needs. We also took significant steps to capitalize on the three most important industry trends: the shift in consumer preference from frozen concentrate to chilled juice, a growing interest in nutrition and the emergence of the low-calorie segment.

Minute Maid orange juice outsells its nearest competitor 3-to-1 in the frozen concentrate segment but ranks second in the larger chilled category. Accordingly, Coca-Cola Foods is reallocating its production, marketing and human resources to build presence in the chilled segment. For example, we introduced a new 96-ounce plastic container that provides greater handling convenience for consumers.

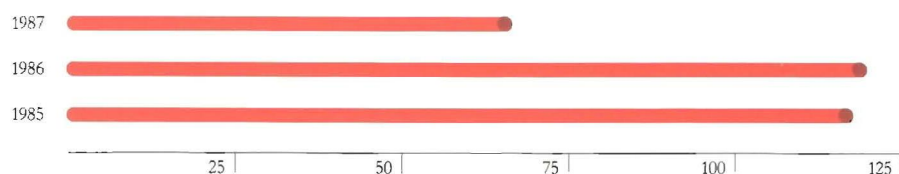
Advertising emphasized the nutritional content of our products, particularly Minute Maid Calcium Fortified orange juice, to capitalize on growing consumer interest in nutrition. Consumers also responded well to chilled Minute Maid

### FOODS BUSINESS SECTOR

#### Net Operating Revenues (\$ Millions)



#### Operating Income (\$ Millions)





*Coca-Cola Foods is the leading marketer of fruit juices in the United States and Canada, with more than 40 percent of its operating income coming from the Minute Maid trademark.*

Light 'n Juicy low-calorie fruit beverages, introduced to provide Coca-Cola Foods with a strong position in the growing low-calorie juice beverage segment.

New product introductions spurred gains for our large and growing aseptic package business, while new flavors and increased availability stimulated volume growth for Bacardi frozen concentrated tropical fruit mixers. Coca-Cola Foods also increased its emphasis on developing complementary distribution channels, making significant gains in capturing new foodservice accounts and introducing Minute Maid On The Go, single-serve glass bottles of juices and drinks sold in convenience stores. Expansion into Canada continued to generate strong volume and earnings gains there.



## THE COMPANY'S BUSINESSES

**INVESTMENTS**—Investments have become a very important tool in creating additional shareholder value for The Coca-Cola Company. In addition to contributing \$119 million to the Company's net income line, our investments also enhanced the operating performance of our core business.

This is particularly true of our investments in selected components of the worldwide Coca-Cola bottling system. The strength of The Coca-Cola Company depends in large part on the strength of our bottling partners, and since 1981 we have grown increasingly alert to opportunities to enhance our system through facilitating ownership changes.

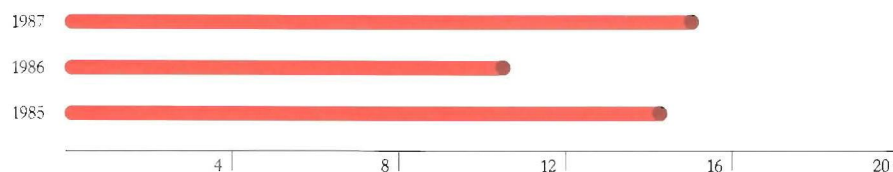
Frequently, we have participated in these changes as equity partners. This approach has been most apparent in North America, where we sold to the public majority stakes in Coca-Cola Enterprises Inc. (CCE) in 1986 and Canada's T.C.C. Beverages Ltd. in 1987. Maintaining a 49 percent equity interest in each of these units allows us to participate in the bottling operations of two important markets while freeing each company to adopt appropriately leveraged capital structures.

CCE, which handles approximately 45 percent of our U.S. volume, realized substantial operating efficiencies during its first full year of operation. T.C.C. Beverages controls more than 70 percent of the Company's volume in Canada and enjoys newly found economies of scale. Both companies now operate with the advantage of capital structures that can accommodate the higher level of reinvestment and leverage necessary to compete most effectively in the bottling industry.

We further bolstered our North American system by investing \$63 million in Coca-Cola Bottling Co. Consolidated, which brought us 20 percent ownership and assisted in the rejuvenation of this bottling partner in the southeastern United

### Debt to Capital (%)

*(Net of Temporary Investments, Notes Receivable from CPE and Excess Cash and Marketable Securities)*





*Coca-Cola Enterprises used its size and independent capital structure to bring significant efficiencies to the Coca-Cola system in the United States in 1987.*

States. Similarly, we invested in the Johnston Coca-Cola Bottling Group, Inc., strengthening Johnston's competitive capabilities and obtaining a 21 percent ownership position. The Company also increased its investment in the New York Coca-Cola Bottling Company.

The Company's investments have not been limited to North America. Following successful bottling joint ventures and investments in the Philippines, Indonesia and Taiwan, the Company extended its equity participation to several other important international markets in 1987. A joint venture with Cadbury Schwepps plc has brought aggressive



## THE COMPANY'S BUSINESSES

marketing to the British soft drink marketplace. Joint ventures with government enterprises in the People's Republic of China have accelerated our progress in that developing market.

Outside the soft drink industry, we organized our entertainment operation to allow it to establish a capital structure more appropriate for that business. By combining our Entertainment Business Sector with Tri-Star Pictures, Inc., to form Columbia Pictures Entertainment, Inc. (CPE), and then, through a dividend in-kind to shareholders of The Coca-Cola Company, reducing our ownership interest to 49 percent, we created a formidable competitor in the entertainment industry.

With revenues exceeding \$1 billion annually, CPE can reduce costs by consolidating operations and may now adopt financial policies appropriate for a major producer, distributor and exhibitor of filmed entertainment product. In addition to producing motion pictures and television programming, CPE owns a 300-screen chain of theatres, acquired last year from Loews.

**FINANCIAL POLICIES**—Allowing our business units to establish optimum capital structures for the operations in which they are engaged is but one example of The Coca-Cola Company's innovative financial policies. Since 1981, we have increasingly made more aggressive, efficient use of the financial resources available to an organization of our scope.

In July 1986, we announced our intention to increase dividends at a rate slower than the growth in net income and to reduce our dividend payout ratio gradually to 40 percent, an objective we are well on our way to achieving. Lowering the payout ratio allows us to reinvest more substantially in opportunities offering returns in excess of the cost of capital, thereby accelerating the creation of shareholder value.

At the end of 1986, we also raised the self-imposed ceiling on our net debt-to-capital ratio to 35 percent. With our current ratio of 15.3 percent, our borrowing capacity now stands at approximately \$1.2 billion (see chart on page 18). We will remain highly selective in evaluating opportunities for tapping this substantial resource, preferring investments within our existing lines of business and applying strict discipline in assessing potential investments on the basis of cost of capital, rate of return and opportunity for future reinvestment.



*Columbia Pictures Entertainment, one of the world's largest entertainment companies, now enjoys the flexibility inherent in a free-standing capital structure.*

Often the best use of excess cash generated by our businesses has been to invest in our own stock. After repurchasing 10 million shares in 1986 and early 1987, we announced plans in July 1987 to repurchase over a three-year period up to 40 million shares, more than 10 percent of the Company's total number of outstanding shares. By year-end, we had purchased 6.6 million shares, lowering the total number of outstanding shares to approximately 372 million.

We continue to explore new and innovative methods of using The Coca-Cola Company's financial resources to increase shareholder wealth.



The common stock of The Coca-Cola Company has been an excellent investment, especially during this decade. Its total return has grown at an average compounded annual rate of 25 percent since 1981, significantly outperforming the 16 percent growth registered by the Standard & Poor's 500 index. During that time, the return on shareholders' equity increased more than 7 points to 27 percent.

We have accomplished this growth in returns to our shareholders by applying the criteria and methodology of value creation to the opportunities available to our Company. Management views the creation of shareholder value as a process: increasing our rate of investment in areas offering attractive returns, improving returns on existing assets and lowering the cost of capital in order to maximize the cash flow of our enterprise. The process is depicted in the diagram on page 24.

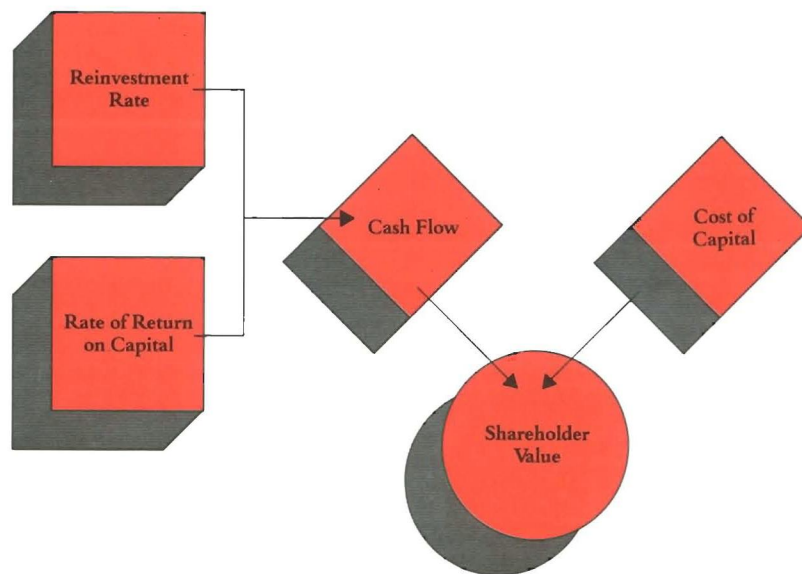
Of course, value creation requires more than a valid theory and careful analysis.

Those opportunities chosen must also be realized, and in our business, value is created primarily through better service to our customers and consumers. At The Coca-Cola Company, shareholder value is still created one bottle, can or cup at a time. Our products face a worldwide consumer referendum every day, and our simple but demanding task is to increase both the number of consumers and their per capita consumption of our products.



## THE COMPANY'S FUTURE

We are prepared to meet that challenge. We have redesigned our corporate structure to maximize both the operational efficiency and the value-creating potential of each of our businesses. Our core business continues to generate considerable excess cash, allowing us, along with our bottling/canning partners and fountain customers, to reinvest aggressively in its future, particularly outside the United States. Our vigorous financial policies ensure that we are allocating and managing our resources to build shareholder wealth. Even in times of economic uncertainty, our unequalled global scope and the very nature of our core business—providing an inexpensive moment of pleasure—are forces for sustained, profitable growth well into the future.





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Management's primary objective is to increase shareholder value over time. To accomplish this objective, The Coca-Cola Company and subsidiaries (the "Company") have developed a comprehensive business strategy that emphasizes improving volume and margins, maximizing long-term cash flow by increasing investments in areas offering attractive returns, establishing the most appropriate financial and business structures for its various operations, divesting low return assets and maintaining appropriate financial policies.

**Management of Resources:** A key element of the Company's strategy is to concentrate its resources in consumer markets, which the Company can manage for competitive advantage and which offer attractive returns and high potential for cash flow growth. Management seeks investments that strategically enhance existing operations and offer long-term cash returns that exceed the Company's weighted average cost of capital. For investments with risk characteristics similar to the soft drink industry and assuming a net debt-to-total-capital ratio ceiling of 35 percent, that cost of capital is estimated by management to be approximately 12 percent after taxes.

The Company's emphasis on profitable growth is reflected in its level of investment spending. In 1987, the Company's capital investments totaled approximately \$170 million in its soft drink sectors, \$56 million in its foods sector and \$74 million related to corporate operations. The soft drink sectors invested primarily in the purchase of sales, production and computer equipment and the improvement of production facilities. Expenditures in the foods sector consisted primarily of

investments in dispensing equipment and production line improvements. Corporate expenditures included facility construction and improvements and the purchase of computer equipment.

The Company repurchased 14.2 million shares of its common stock in 1987, 2.9 million shares in 1986 and 15 million shares in 1985. In July 1987, the Board of Directors approved a plan for the repurchase of up to 40 million shares of the Company's common stock by December 31, 1990. As of December 31, 1987, approximately 6.6 million shares had been repurchased under this program at an aggregate cost of approximately \$278 million. These repurchases commenced after management determined that the Company's available cash and debt capacity exceeded the funds required to support growth in operations and investments. Management will consider future share repurchases as appropriate business and cash flow circumstances develop.

**Business Structures:** In 1987, the Company continued its practice of creating the most appropriate financial and business structures for each of its businesses. On December 17, 1987, the Company combined its Entertainment Business Sector, except for certain assets consisting of real estate and certain financial assets, with Columbia Pictures Entertainment, Inc. (CPE), formerly known as Tri-Star Pictures, Inc. On January 15, 1988, the Company distributed a special dividend of CPE common stock to its shareholders. Subsequent to the distribution, the Company owns approximately 49 percent of the CPE common stock. These transactions created a significantly stronger



and larger independent, publicly traded entertainment company with substantially enhanced growth potential.

A primary goal for the Soft Drink Business Sectors is to further strengthen a strong, efficient bottler network. The Company seeks to achieve this goal by using innovative business structures such as T.C.C. Beverages Ltd. in Canada and Coca-Cola Enterprises Inc. in the United States, both of which are independent, publicly traded bottling companies of which the Company owns approximately 49 percent.

Both the entertainment and soft drink bottling companies will have the financial flexibility to achieve their full growth potential and generate optimum returns on capital and, in turn, the Company's equity.

**Capital Structure:** One of the Company's financial goals is to maintain a strong financial position while utilizing prudent amounts of debt. The Company believes its net debt-to-total-capital ratio ceiling of 35 percent is appropriate to ensure access to major capital markets while maintaining a competitive cost of capital. At December 31, 1987, total debt, net of temporary investments, notes receivable from CPE and excess cash and current marketable securities, represented 15.3 percent of total capital. The debt-to-capital ratio ceiling results in borrowing capacity of approximately \$1.2 billion, a portion of which will be allocated to funding the share repurchase program previously mentioned. The Company envisions using such remaining borrowing capacity principally to fund investment opportunities which meet the Company's strategic and financial requirements. These financing policies are aimed at reducing the weighted average cost of capital and increasing the total return to shareholders.

**Dividends:** With approval from the Board of Directors, management plans to increase the percentage of earnings reinvested in the business by raising dividends annually at a rate lower than the prior year's growth in earnings per share, thus decreasing, over time, the dividend payout ratio to a targeted ratio of 40 percent. The annual cash dividend was \$1.12 per share, \$1.04 per share and \$0.99 per share in 1987, 1986 and 1985, respectively. In 1987, the Board of Directors approved a special dividend in-kind of CPE common stock which, based on the Company's carrying value, equates to \$0.90 per share. At its February 1988 meeting, the Board of Directors increased the quarterly cash dividend per share to \$0.30, equivalent to a full year dividend of \$1.20 in 1988. This is the 26th consecutive year in which the Board of Directors has approved dividend increases.

## Management's Discussion and Analysis

### LINES OF BUSINESS

The Company operates in two major lines of business: soft drinks and foods. Additionally, the Company has substantial equity investment positions in various soft drink bottling operations and the filmed entertainment production and distribution business.

The Soft Drink Business Sectors manufacture and sell soft drink syrups and concentrates to independent and partially owned bottling and canning operations and approved wholesalers. The Company also owns and operates certain bottling and canning operations, principally outside the United States,

which represent approximately 4 percent of international volume. In 1987, T.C.C. Beverages Ltd. (TCC), formerly a wholly owned bottling subsidiary operating in Canada, completed an initial public offering of 51 percent of its stock. In 1986, Coca-Cola Enterprises Inc., formerly a wholly owned bottling subsidiary operating in the United States, sold common stock through an initial public offering representing 51 percent of total outstanding shares. For additional information, see Note 3 to the consolidated financial statements on pages 41 through 43.

The Foods Business Sector's principal business is marketing and processing citrus and fruit juices and fruit drink products, primarily orange juice. The sector also sells coffee, tea, bottled water and juice-based frozen desserts.

In 1985, the Company sold Presto Products Incorporated and Winkler/Flexible Products, Inc., manufacturers of plastic products. The operating results for these companies have been reported as discontinued operations.

#### OPERATING RESULTS

**Soft Drinks:** Revenues and operating income for the Soft Drink Business Sectors increased in 1987 and 1986 primarily because of unit volume increases of 6 percent and 10 percent, respectively, and because of the effects of more favorable exchange rates. Operating income in 1987 was also favorably affected by

price increases, lower sweetener costs and a more favorable product mix. Operating income in 1986 was reduced by \$180 million, representing provisions for restructured operations and disinvestment as described on page 29. Volume increased significantly for the Coca-Cola megabrand in both years. Approximately 65 percent of soft drink sales volume is generated outside the United States. As the dollar weakens against other currencies, local currency revenues and operating income translate into a greater number of U.S. dollars.

**Foods:** Citrus marketing and processing is the principal business in the Foods Business Sector. In 1987, revenues increased 7 percent; however, operating income decreased due primarily to increased marketing expenditures and restructuring provisions totaling \$36 million recorded in the third quarter.

In 1986, revenues remained even with 1985 due to lower industry pricing, partially offset by volume gains. Operating income benefited from volume gains in the chilled and frozen concentrated orange juice categories and lower orange juice costs, partially offset by higher marketing and other operating expenses related to new product introductions. Revenues and operating income increased in the other divisions of the sector in relation to general volume increases.

#### SELLING, ADMINISTRATIVE AND GENERAL EXPENSES

Selling expenses, including media advertising, were \$2.11 billion in 1987, \$1.94 billion in 1986 and \$1.72 billion in 1985. Expenditures for media advertising were \$720 million in 1987, \$648 million in 1986 and \$605 million in 1985. The increases in media advertising resulted primarily from increased exchange



rates which increased the U.S. dollar equivalent of reported foreign expenses.

Administrative and general expenses increased 8.9 percent and 14.7 percent in 1987 and 1986, respectively. These increases were due to employment-related expenses in both years and nonrecurring 1986 corporate activities including the Company's Centennial Celebration. Such expenses, as a percentage of net operating revenues, remained relatively stable at about 7 percent for the three years ended December 31, 1987.

#### **PROVISIONS FOR RESTRUCTURED OPERATIONS AND DISINVESTMENT**

In 1987, the Company recorded a \$36 million provision related to restructuring activities in its Foods Business Sector. This charge represents transitional matters associated with the change in industry environment and a revised operating strategy concurrent with a change in senior management.

In 1986, the Company recorded provisions totaling \$180 million. These provisions included \$135 million related principally to the revaluation of certain assets and the estimated cost of closing various production facilities as a result of changes in the conduct of the Company's U.S. soft drink business. The remaining \$45 million related to the Company's disinvestment from South Africa. These provisions reduced net income by approximately \$128 million and earnings per share by \$0.33 in 1986.

#### **INTEREST INCOME AND EXPENSE**

Interest income increased \$68 million in 1987 and decreased \$5 million in 1986. The increase in 1987 was due primarily to higher average invested balances, partially offset by lower average interest rates. The decrease in 1986 resulted from lower average invested balances coupled with lower average interest rates.

Increases in interest expense of \$82 million in 1987 and \$7 million in 1986 were due to increases in average total debt, partially offset by lower average interest rates. The increases in debt were primarily related to business investments and share repurchase programs.

#### **OTHER INCOME AND DEDUCTIONS**

The decrease in other income (net) in 1987 reflects the revaluation of certain investments and other charges which were substantially offset by the gain on the sale of a non-U.S. bottling operation and higher exchange gains.

The decrease in other income (net) in 1986 reflects non-recurring gains in the prior year versus lower exchange gains and increased other deductions in 1986.

#### **SIGNIFICANT EQUITY INVESTEEES**

##### **Columbia Pictures Entertainment, Inc.**

In December 1987, the Entertainment Business Sector of the Company (other than certain real estate and other assets retained by the Company) was combined with Columbia Pictures Entertainment, Inc. (CPE), formerly known as Tri-Star Pictures, Inc., in exchange for approximately 75.2 million

shares of newly issued CPE common stock. (See Note 3 to the consolidated financial statements.) On December 17, 1987, the Board of Directors of the Company approved a taxable, one-time dividend of approximately 34.1 million shares of CPE stock to the Company's shareholders of record as of December 31, 1987. Subsequent to this distribution on January 15, 1988, the Company owns approximately 49 percent of CPE. Accordingly, the Company has commenced reporting its investment in CPE under the equity method of accounting; prior periods have been restated for consistency of presentation.

#### **Coca-Cola Enterprises Inc.**

Coca-Cola Enterprises Inc. (CCE) was formed by the Company in 1986, comprising soft drink bottling operations historically owned by the Company and other Coca-Cola bottling operations acquired by the Company and CCE in 1986. (See Note 3 to the consolidated financial statements.)

On November 21, 1986, CCE sold 71.4 million shares of its common stock in an initial public offering which reduced the Company's ownership interest to 49 percent. The Company recorded a pretax gain of approximately \$375 million as a result of this transaction. This gain increased net income by approximately \$262 million and earnings per share by \$0.68 in 1986. The Company is accounting for its investment in CCE under the equity method of accounting.

Syrup/concentrate and sweetener sales to CCE were \$653 million in 1987, \$392 million in 1986 and \$265 million in 1985. In January 1987, CCE switched almost exclusively to the pur-

chase of concentrate from the purchase of syrup for the manufacture of Company soft drink products, which reduces the level of sales as concentrate generally does not include sweetener. Such sales were significantly higher in 1987 because of the acquisitions of significant Company bottling operations by CCE in 1986; however, this increase was partially offset due to the switch to concentrate.

#### **T.C.C. Beverages Ltd.**

On September 29, 1987, TCC, then a wholly owned subsidiary comprising substantially all of the Company-owned soft drink bottling operations in Canada, sold common stock in an initial public offering. The Company recorded a gain of approximately \$40 million as a result of this transaction. Such sale of stock reduced the Company's ownership interest to 49 percent. Accordingly, the Company has commenced accounting for this investment under the equity method of accounting; prior periods have been restated for consistency of presentation.

#### **Other Significant Equity Investments**

In January 1987, the Company contributed its bottling and canning assets in Great Britain to a corporate joint venture in which the Company owns a 49 percent common stock equity interest. In June 1987, the Company also made additional common stock investments in Coca-Cola Bottling Co. Consolidated (Consolidated) and Johnston Coca-Cola Bottling Group, Inc. (Johnston) totaling approximately \$117 million. The Company's total voting ownership interest in Consolidated and Johnston is 20 percent and 21 percent, respectively. The Company is accounting for these investments under the equity method of accounting.



### **LIQUIDITY AND CAPITAL RESOURCES**

On December 31, 1987, the Company's cash and marketable securities totaled approximately \$1.5 billion, an increase of \$600 million over 1986. This increase was due principally to increases in short-term borrowings and cash provided by operations.

The decrease in prepaid expenses and other assets in 1987 reflects the sale of Coca-Cola bottling companies affiliated with Mr. Crawford Rainwater, Jr. (Rainwater Bottlers), which was reported as a temporary investment in 1986. The increase in other investments primarily reflects additional equity investments in other bottling companies and the Company's 49 percent equity interest in a joint venture with Cadbury Schweppes plc. The Company's bottling and canning assets in Great Britain were contributed to this joint venture in January 1987. The decrease in goodwill is due principally to the deconsolidation of the operations in Great Britain.

In 1987, the increase in short-term debt was due principally to the funding of the share repurchase program and the purchase of equity investments in bottling companies as described above. On December 31, 1987, the Euroyen debt issue had a U.S. dollar equivalent of approximately \$249 million, of which approximately \$144 million has been designated as a hedge against the Company's net investment in Coca-Cola (Japan) Company Ltd. (CCJC); the remaining amount is hedged through interest and currency swap agreements.

In January 1988, the Company purchased The Coca-Cola Bottling Company of Memphis, Tenn. (Memphis CCBC) and subsequently sold Memphis CCBC and The Coca-Cola Bot-

tling Company of Southern Florida, Inc. (Miami CCBC) to Coca-Cola Enterprises Inc. for approximately \$500 million in cash plus the assumption of indebtedness, the total of which approximated the Company's carrying value.

On December 31, 1986, cash and marketable securities totaled approximately \$869 million, an increase of \$33 million over the prior year. The increase resulted primarily from cash provided by operations and increases in borrowings.

The increase in prepaid expenses and other assets in 1986 reflects the acquisition costs of Miami CCBC and Rainwater Bottlers, which were reported as temporary investments based on management's plan to dispose of the Company's ownership interests. At December 31, 1986, the increase in investments of approximately \$347 million was due primarily to the increase in carrying value of CCE resulting from the gain recognized from its sale of common stock in an initial public offering.

In 1986, the increase in short-term debt of approximately \$303 million was due principally to the funding of the acquisitions of Rainwater Bottlers and Miami CCBC and the share repurchase program. The increase in long-term debt of approximately \$168 million was due principally to a Euroyen debt issue partially offset by a \$100 million debt issue redeemed three years early in October 1986. On December 31, 1986, the Euroyen debt issue had a U.S. dollar equivalent of approximately \$189 million, of which approximately \$110 million was designated as a hedge against the Company's net investment in CCJC.

Major uses of cash continue to be capital expenditures, investment activities, dividends and the repurchase of common stock.

The Company maintains cash and current marketable securities substantially in excess of minimum operating requirements. The percentage of total debt (net of temporary investments, notes receivable from CPE and cash and current marketable securities in excess of minimum operating needs) to total capital was as follows:

*December 31, 1987:* 15.3% (net of an estimated \$1,268 million of cash and current marketable securities in excess of minimum operating requirements, \$545 million of notes receivable from CPE which were paid in cash on January 19, 1988, and \$308 million of temporary investments which were sold for cash on January 29, 1988).

*December 31, 1986:* 10.8% (net of an estimated \$669 million of cash and current marketable securities in excess of minimum operating requirements and \$516 million of temporary investments).

The Company maintains credit lines at various financial institutions. On December 31, 1987, the unused portion of these credit lines was \$771 million.

Capital expenditures in 1987, 1986 and 1985 were \$300 million, \$346 million and \$412 million, respectively, and related principally to facility construction, capacity expansion, purchase of fixed assets for improved efficiency and fixed assets of purchased companies.

## INTERNATIONAL OPERATIONS

The Company distributes its products in more than 155 countries and uses approximately 40 functional currencies. The U.S. dollar is used as the functional currency in countries considered to have hyperinflationary economies, such as Brazil and Mexico.

In 1986, the Company announced that it would disinvest from South Africa and disposed of its interests in the soft drink bottling and canning operations in that country. A provision for disinvestment of \$45 million was charged against operations in the fourth quarter of 1986.

Approximately 74 percent of total operating income is generated outside the United States. Management estimates that the average annual exchange rates of selected key foreign hard currencies compared to the U.S. dollar increased by an average of 16 percent and 27 percent in 1987 and 1986, respectively.

Percentage increases (decreases) in average exchange rates relative to the U.S. dollar for several of the selected foreign currencies are as follows:

	1987	1986	1985
Germany	20%	34 %	(3)%
Japan	16%	41 %	1 %
United Kingdom	11%	13 %	(2)%
Australia	5%	(4)%	(20)%

Exchange effects (net gains on foreign currency transactions and translation of balance sheet accounts for operations in countries for which the U.S. dollar serves as the functional currency) were \$35 million in 1987, \$18 million in 1986 and \$30 million in 1985. Such amounts are included in other income in the consolidated statements of income.



The Company does not routinely enter into forward exchange contracts to hedge its net investment in foreign operations. The Company does, however, engage in various hedging activities to minimize potential losses on cash flows denominated in foreign currencies and to offset foreign exchange movements on firm commitments and certain other transactions where the potential for loss exists.

#### **IMPACT OF NEW ACCOUNTING STANDARDS**

In 1988, the Company will include in its consolidated financial statements the financial position and results of operations of Coca-Cola Financial Corporation (CCFC), a finance subsidiary, in accordance with FASB Statement No. 94 "Consolidation of All Majority-Owned Subsidiaries." CCFC is currently accounted for under the equity method of accounting. Based on comparable amounts at December 31, 1987, this change in reporting could increase consolidated interest-bearing receivables and indebtedness by approximately \$300 million.

In December 1987, the Financial Accounting Standards Board issued FASB Statement No. 96 "Accounting for Income Taxes," which companies are required to adopt no later than 1989. Based on preliminary studies and evaluations, the adoption of Statement 96 is not expected to have an adverse impact on the Company's financial position.

#### **IMPACT OF INFLATION AND CHANGING PRICES**

Although inflation has slowed in the United States in recent years, it is still a factor in many of the Company's markets around the world and the Company continues to seek ways to cope with its impact. Foreign currency exchange rates tend to reflect over time the difference in relative inflation rates. The

Company's financial statements, prepared in accordance with generally accepted accounting principles, reflect the historical cost rather than the current or replacement cost of assets required to maintain productive capability. Income from continuing operations determined under the specific price changes method (current cost) would be less than reported in the primary financial statements.

In periods of inflation, monetary assets, such as cash and accounts receivable, lose purchasing power while monetary liabilities, such as accounts payable and debt, gain purchasing power. The Company has benefited from its net monetary liability position in recent years resulting in net purchasing power gains. These gains do not represent an increase in funds available for distribution to shareholders and do not necessarily imply that incurring more debt would be beneficial to the Company.

In general, management believes that the Company is able to adjust prices to compensate for increasing costs and to generate sufficient cash flow to maintain its productive capability.

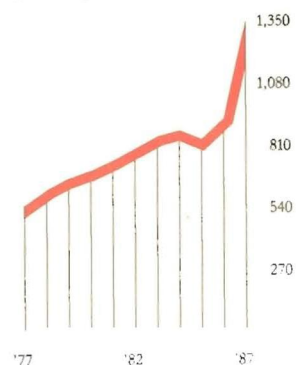
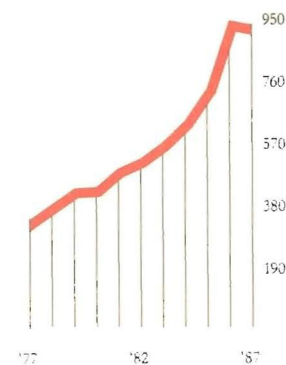
#### **ADDITIONAL INFORMATION**

For additional information concerning the Company's operations, cash flow, liquidity and capital sources, this analysis should be read in conjunction with the information on pages 36 through 51 of this Annual Report. Additional information concerning operations in different industries and geographic areas is presented on pages 48 and 49.

**Selected Financial Data** (In millions except per share data)

Year Ended December 31,		1987	1986	1985
<b>SUMMARY OF OPERATIONS</b> (a,b)	Net operating revenues	\$7,658	\$6,977	\$5,879
	Cost of goods	3,633	3,454	2,909
	Gross profit	4,025	3,523	2,970
	Selling, administrative and general expenses	2,665	2,446	2,163
	Provisions for restructured operations and disinvestment	36	180	—
	Operating income	1,324	897	807
	Interest income	207	139	145
	Interest expense	279	197	190
	Equity income	118	156	164
	Other income (deductions)—net	—	33	66
	Gain on sale of stock by former subsidiaries	40	375	—
	Income from continuing operations before income taxes	1,410	1,403	992
	Income taxes	494	469	314
	Income from continuing operations	\$ 916	\$ 934	\$ 678
	Net income	\$ 916	\$ 934	\$ 722
<b>PER SHARE DATA</b> (c)	Income from continuing operations	\$ 2.43	\$ 2.42	\$ 1.72
	Net income	2.43	2.42	1.84
	Dividends			
	Cash	1.12	1.04	.99
<b>YEAR-END POSITION</b>	In-kind	.90	—	—
	Cash and marketable securities	\$1,468	\$ 869	\$ 835
	Property, plant and equipment—net	1,598	1,538	1,482
	Total assets	8,356	7,484	6,246
	Long-term debt	803	908	739
	Total debt	2,702	1,610	1,139
	Shareholders' equity	3,224	3,515	2,979
<b>FINANCIAL RATIOS</b>	Total capital (d)	5,926	5,125	4,118
	Income from continuing operations to average shareholders' equity	27.2%	28.8%	23.5%
	Total debt to total capital	45.6%	31.4%	27.7%
	Cash dividend payout	46.0%	43.1%	53.7%
<b>OTHER DATA</b>	Average shares outstanding (c)	377	387	393
	Capital expenditures	\$ 300	\$ 346	\$ 412
	Depreciation	152	151	130
	Market price per share at December 31 (c)	38.13	37.75	28.17

**Notes:** (a) As a result of the December 1987 combination of the Company's Entertainment Business Sector with Columbia Pictures Entertainment, Inc. (CPE), formerly known as Tri-Star Pictures, Inc., and the taxable, one-time dividend of CPE stock to the Company's shareholders, the Company's ownership interest in CPE has been reduced to approximately 49 percent and is reported under the equity method. In addition, T.C.C. Beverages Ltd., a Canadian bottling company, sold unissued shares of its common stock in an initial public

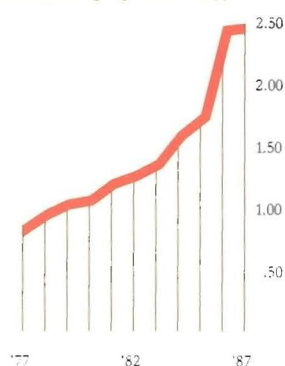
**Operating Income (\$ Millions)**

**Net Income (\$ Millions)**




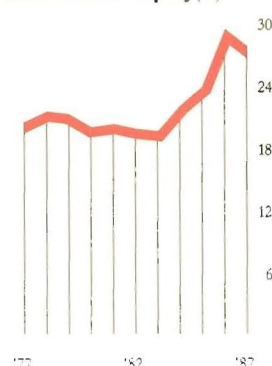
1984	1983	1982	1981	1980	1979	1978	1977
\$5,442	\$5,056	\$4,760	\$4,836	\$4,640	\$3,895	\$3,423	\$2,753
2,738	2,580	2,472	2,675	2,594	2,101	1,854	1,531
2,704	2,476	2,288	2,161	2,046	1,794	1,569	1,222
1,855	1,648	1,515	1,441	1,366	1,150	967	694
—	—	—	—	—	—	—	—
849	828	773	720	680	644	602	528
131	90	119	85	56	46	41	32
127	77	76	34	30	10	7	6
117	84	46	20	14	18	17	19
12	2	11	(20)	(13)	(7)	(18)	(12)
—	—	—	—	—	—	—	—
982	927	873	771	707	691	635	561
360	374	379	339	313	305	284	251
\$ 622	\$ 553	\$ 494	\$ 432	\$ 394	\$ 386	\$ 351	\$ 310
\$ 629	\$ 559	\$ 512	\$ 482	\$ 422	\$ 420	\$ 375	\$ 331
\$ 1.57	\$ 1.35	\$ 1.27	\$ 1.17	\$ 1.06	\$ 1.04	\$ .95	\$ .84
1.59	1.37	1.32	1.30	1.14	1.13	1.01	.89
.92	.89	.83	.77	.72	.65	.58	.51
—	—	—	—	—	—	—	—
\$ 734	\$ 559	\$ 254	\$ 344	\$ 235	\$ 153	\$ 325	\$ 351
1,284	1,247	1,233	1,160	1,045	976	833	688
5,211	4,550	4,212	3,373	3,152	2,710	2,439	2,144
631	428	423	132	121	22	15	15
1,229	520	493	227	213	130	69	57
2,778	2,921	2,779	2,271	2,075	1,919	1,740	1,578
4,007	3,441	3,272	2,498	2,288	2,049	1,809	1,635
21.8%	19.4%	19.6%	19.9%	19.7%	21.1%	21.2%	20.6%
30.7%	15.1%	15.1%	9.1%	9.3%	6.3%	3.8%	3.5%
58.0%	65.3%	62.8%	59.5%	63.2%	57.6%	57.4%	57.5%
396	408	390	372	372	372	372	369
\$ 300	\$ 324	\$ 273	\$ 279	\$ 241	\$ 309	\$ 234	\$ 203
119	111	104	94	87	77	61	55
20.79	17.83	17.33	11.58	11.13	11.50	14.63	12.42

offering which reduced the Company's ownership interest to 49 percent, and is reported under the equity method of accounting. Prior years' information has been restated to conform to the current year's presentation. This change had no effect on previously reported net income or net income per share. (b) In 1982, the Company adopted FASB Statement No. 52 "Foreign Currency Translation." (c) Adjusted for a three-for-one stock split in 1986 and a two-for-one stock split in 1977. (d) Includes shareholders' equity and total debt.

**Income Per Share From Continuing Operations (\$)**



**Return on Shareholders' Equity (%)**



**Consolidated Balance Sheets** (In thousands except share data)

December 31,		1987	1986
ASSETS			(Restated)
CURRENT	Cash	\$1,017,624	\$ 606,848
	Marketable securities, at cost		
	(approximates market)	450,640	261,785
		1,468,264	868,633
	Trade accounts receivable, less allowances of		
	\$13,429 in 1987 and \$11,657 in 1986	672,160	672,568
	Inventories	776,740	695,437
	Prepaid expenses and other assets	674,148	932,630
	Notes receivable—Columbia Pictures Entertainment, Inc.	544,889	—
	<b>TOTAL CURRENT ASSETS</b>	<b>4,136,201</b>	<b>3,169,268</b>
INVESTMENTS AND OTHER ASSETS	Investments in affiliates		
	Columbia Pictures Entertainment, Inc.	989,409	1,436,707
	Coca-Cola Enterprises Inc.	749,159	709,287
	T.C.C. Beverages Ltd.	84,493	87,696
	Other	435,484	212,194
	Receivables and other assets	289,000	217,046
		2,547,545	2,662,930
PROPERTY, PLANT AND EQUIPMENT	Land	112,741	98,842
	Buildings and improvements	763,317	695,029
	Machinery and equipment	1,488,464	1,390,689
	Containers	275,120	287,672
		2,639,642	2,472,232
	Less allowances for depreciation	1,041,983	934,679
		1,597,659	1,537,553
GOODWILL AND OTHER INTANGIBLE ASSETS		74,155	114,377
		<b>\$8,355,560</b>	<b>\$7,484,128</b>



December 31,

1987

1986

## LIABILITIES AND SHAREHOLDERS' EQUITY

(Restated)

## CURRENT

Accounts payable and accrued expenses	\$1,430,193	\$1,198,407
Loans and notes payable	1,685,408	697,743
Current maturities of long-term debt	213,609	4,628
Dividends payable in-kind	335,017	—
Accrued taxes—including income taxes	454,313	344,141

## TOTAL CURRENT LIABILITIES

4,118,540 2,244,919

## LONG-TERM DEBT

803,352 907,676

## DEFERRED INCOME TAXES

209,880 239,813

## DUE TO COLUMBIA PICTURES ENTERTAINMENT, INC.

— 576,741

## SHAREHOLDERS' EQUITY

Preferred stock, \$1 par value—		
Authorized: 100,000,000 shares;		
No shares issued and outstanding	—	—
Common stock, \$1 par value—		
Authorized: 700,000,000 shares;		
Issued: 415,977,479 shares in		
1987 and 414,491,987 shares in 1986	415,977	414,492
Capital surplus	338,594	299,345
Reinvested earnings	3,783,625	3,624,046
Foreign currency translation adjustment	(5,047)	(118,087)
	4,533,149	4,219,796
Less treasury stock, at cost (43,621,336 shares		
in 1987; 29,481,220 shares in 1986)	1,309,361	704,817
	3,223,788	3,514,979
	\$8,355,560	\$7,484,128

See Notes to Consolidated Financial Statements.

<i>Year Ended December 31,</i>	<i>1987</i>	<i>1986</i>	<i>1985</i>
		<i>(Restated)</i>	<i>(Restated)</i>
<b>NET OPERATING REVENUES</b>	<b>\$7,658,341</b>	<b>\$6,976,558</b>	<b>\$5,879,160</b>
Cost of goods	<b>3,633,159</b>	<b>3,453,891</b>	<b>2,909,496</b>
<b>GROSS PROFIT</b>	<b>4,025,182</b>	<b>3,522,667</b>	<b>2,969,664</b>
Selling, administrative and general expenses	<b>2,665,022</b>	<b>2,445,602</b>	<b>2,162,991</b>
Provisions for restructured operations and disinvestment	<b>36,370</b>	<b>180,000</b>	<b>—</b>
<b>OPERATING INCOME</b>	<b>1,323,790</b>	<b>897,065</b>	<b>806,673</b>
Interest income	<b>207,164</b>	<b>139,348</b>	<b>144,648</b>
Interest expense	<b>279,012</b>	<b>196,778</b>	<b>189,808</b>
Equity income	<b>118,533</b>	<b>155,804</b>	<b>164,385</b>
Other income—net	<b>34</b>	<b>33,014</b>	<b>66,524</b>
Gain on sale of stock by former subsidiaries	<b>39,654</b>	<b>375,000</b>	<b>—</b>
<b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>	<b>1,410,163</b>	<b>1,403,453</b>	<b>992,422</b>
Income taxes	<b>494,027</b>	<b>469,106</b>	<b>314,856</b>
<b>INCOME FROM CONTINUING OPERATIONS</b>	<b>916,136</b>	<b>934,347</b>	<b>677,566</b>
Income from discontinued operations (net of applicable income taxes of \$7,870)	<b>—</b>	<b>—</b>	<b>9,000</b>
Gain on disposal of discontinued operations (net of applicable income taxes of \$20,252)	<b>—</b>	<b>—</b>	<b>35,733</b>
<b>NET INCOME</b>	<b>\$ 916,136</b>	<b>\$ 934,347</b>	<b>\$ 722,299</b>
<b>PER SHARE</b>			
Continuing operations	<b>\$ 2.43</b>	<b>\$ 2.42</b>	<b>\$ 1.72</b>
Discontinued operations	<b>—</b>	<b>—</b>	<b>.12</b>
Net income	<b>\$ 2.43</b>	<b>\$ 2.42</b>	<b>\$ 1.84</b>
<b>AVERAGE SHARES OUTSTANDING</b>	<b>377,372</b>	<b>386,831</b>	<b>393,354</b>

See Notes to Consolidated Financial Statements.



Three Years Ended December 31, 1987	Number of Shares		Amount				
	Common Stock	Treasury Stock	Common Stock	Capital Surplus	Reinvested Earnings	Foreign Currency Translation	Treasury Stock
Balance December 31, 1984	411,792	19,317	\$ 69,009	\$532,186	\$2,758,895	\$(234,811)	\$ (347,213)
Sales to employees							
exercising stock options	1,025	(123)	171	13,647	—	—	1,552
Tax benefit from sale of option shares by employees	—	—	—	3,492	—	—	—
Translation adjustments (net of income taxes of \$841)	—	—	—	—	—	53,371	—
Treasury stock issued in connection with an acquisition	—	(7,077)	—	46,653	—	—	121,989
Stock issued under Restricted Stock Award Plan	282	—	47	6,639	—	—	—
Treasury stock purchased	—	15,000	—	—	—	—	(379,930)
Net income	—	—	—	—	722,299	—	—
Dividends (per share—\$.99)	—	—	—	—	(388,939)	—	—
Balance December 31, 1985	413,099	27,117	69,227	602,617	3,092,255	(181,440)	(603,602)
Change in par value of common stock	—	—	343,872	(343,872)	—	—	—
Sales to employees							
exercising stock options	1,183	(30)	1,183	26,771	—	—	539
Tax benefit from sale of option shares by employees	—	—	—	5,907	—	—	—
Translation adjustments (net of income taxes of \$5,681)	—	—	—	—	—	63,353	—
Treasury stock issued in connection with an acquisition	—	(485)	—	—	—	—	8,717
Stock issued under Restricted Stock Award Plan	210	—	210	7,922	—	—	—
Treasury stock purchased	—	2,879	—	—	—	—	(110,471)
Net income	—	—	—	—	934,347	—	—
Dividends (per share—\$1.04)	—	—	—	—	(402,556)	—	—
Balance December 31, 1986	414,492	29,481	414,492	299,345	3,624,046	(118,087)	(704,817)
Sales to employees							
exercising stock options	1,307	(32)	1,307	23,364	—	—	566
Tax benefit from sale of option shares by employees	—	—	—	8,207	—	—	—
Translation adjustments (net of income taxes of \$3,394)	—	—	—	—	—	113,040	—
Stock issued under Restricted Stock Award Plan	178	—	178	7,678	—	—	—
Treasury stock purchased	—	14,172	—	—	—	—	(605,110)
Net income	—	—	—	—	916,136	—	—
Dividends							
Cash (per share—\$1.12)	—	—	—	—	(421,540)	—	—
In-kind (per share—\$.90)	—	—	—	—	(335,017)	—	—
Balance December 31, 1987	415,977	43,621	\$415,977	\$338,594	\$3,783,625	\$ (5,047)	\$(1,309,361)

See Notes to Consolidated Financial Statements.

*Year Ended December 31,*

	1987	1986	1985
		(Restated)	(Restated)
<b>OPERATIONS</b>			
Income from continuing operations	\$ 916,136	\$ 934,347	\$ 677,566
Depreciation	151,904	150,888	130,083
Amortization of goodwill	1,573	3,522	3,312
Deferred income taxes	(28,706)	42,300	61,185
Equity income, net of dividends	(79,701)	(126,768)	(155,438)
Gain on sale of stock by former subsidiaries	(39,654)	(375,000)	—
Provisions for restructured operations and disinvestment	36,370	180,000	—
Other	846	972	807
Discontinued operations	—	—	53,573
Working capital provided by operations	958,768	810,261	771,088
Decrease (increase) in net working capital	272,682	(69,384)	(77,221)
Cash provided by operations	1,231,450	740,877	693,867
Decrease (increase) in investments and other assets	234,741	196,205	(523,264)
Additions to property, plant and equipment	(299,616)	(345,826)	(411,752)
Disposals of property, plant and equipment	124,505	155,029	31,333
Decrease (increase) in temporary investments and other	323,209	(542,515)	33,221
Dividends payable in-kind	335,017	—	—
Notes receivable from and due to Columbia Pictures Entertainment, Inc.	(1,121,630)	(180,071)	876,243
Net cash obtained from (invested in) operations	(403,774)	(717,178)	5,781
Net cash available from operations	827,676	23,699	699,648
<b>FINANCING ACTIVITIES</b>			
Increase (decrease) in loans and notes payable and current maturities of long-term debt	1,196,646	303,016	(197,387)
Increase in long-term debt	109,285	271,928	124,693
Decrease in long-term debt	(213,609)	(103,541)	(7,935)
Common stock issued (includes treasury)	41,300	51,249	194,190
Repurchase of common stock	(605,110)	(110,471)	(379,930)
Cash provided by (used for) financing activities	528,512	412,181	(266,369)
<b>DISCONTINUED OPERATIONS</b>			
Net working capital	—	—	29,209
Net long-term assets (including property, plant and equipment)	—	—	27,771
Resources provided by discontinued operations	—	—	56,980
<b>DIVIDENDS</b>			
Cash	(421,540)	(402,556)	(388,939)
In-kind	(335,017)	—	—
Total dividends	(756,557)	(402,556)	(388,939)
<b>CASH AND CURRENT MARKETABLE SECURITIES</b>			
Net increase during the year	599,631	33,324	101,320
Balance at beginning of year	868,633	835,309	733,989
Balance at end of year	\$1,468,264	\$ 868,633	\$ 835,309

*See Notes to Consolidated Financial Statements.*



1. **ACCOUNTING POLICIES.** The major accounting policies and practices followed by the Company and its subsidiaries are as follows:

**Consolidation:** The consolidated financial statements include the accounts of the Company and its subsidiaries except for Coca-Cola Financial Corporation (CCFC). All significant intercompany accounts and transactions are eliminated in consolidation. CCFC, a wholly owned finance subsidiary, is accounted for under the equity method. CCFC's operations for 1987, 1986 and 1985 were not significant to the consolidated financial statements.

**Inventories:** Inventories are valued at the lower of cost or market. In general, inventories are valued on the basis of average cost or first-in, first-out (FIFO) methods. However, certain soft drink and citrus inventories are valued on the last-in, first-out (LIFO) method. The excess of current costs over LIFO stated values amounted to approximately \$19 million and \$23 million at December 31, 1987 and 1986, respectively.

**Property, Plant and Equipment:** Property, plant and equipment is stated at cost, less allowance for depreciation. Depreciation expense is determined principally by the straight-line method. The annual rates of depreciation are 2 percent to 10 percent for buildings and improvements and 7 percent to 34 percent for machinery and equipment. Available investment tax credits have been accounted for by the flow-through method. The investment tax credit was repealed, with some transitional exceptions, effective January 1, 1986.

**Capitalized Interest:** Interest capitalized as part of the cost of acquisition, construction or production of major assets was \$6 million, \$12 million and \$17 million in 1987, 1986 and 1985, respectively.

**Goodwill and Other Intangible Assets:** Goodwill and other intangible assets are stated on the basis of cost and, if acquired subsequent to October 31, 1970, are being amortized, principally on a straight-line basis, over the estimated future periods to be benefited (not exceeding 40 years). Accumulated amortization amounted to \$3 million and \$5 million at December 31, 1987 and 1986, respectively.

2. **INVENTORIES** consist of the following (in thousands):

December 31,	1987	1986
Finished goods	\$310,222	\$301,291
Work in process	6,328	16,643
Raw materials and supplies	460,190	377,503
	<u>\$776,740</u>	<u>\$695,437</u>

3. **INVESTMENTS IN AND ADVANCES TO AFFILIATED COMPANIES.**

**Columbia Pictures Entertainment, Inc.:** On December 17, 1987, the Company combined substantially all of the assets and liabilities of its Entertainment Business Sector (EBS) with Columbia Pictures Entertainment, Inc. (CPE), formerly known as Tri-Star Pictures, Inc., in a transaction which was accounted for as a step-purchase transaction with EBS treated as the acquiring entity for financial reporting purposes. Also on that date, the Company's Board of Directors approved a one-time dividend of approximately 34.1 million shares of CPE stock. This special dividend, accounted for as a partial spin-off based on the Company's carrying value, was distributed on January 15, 1988, and reduced the Company's ownership interest in CPE to approximately 49 percent. On December 18, 1987, the Company purchased \$100 million of CPE adjustable rate non-voting, non-convertible preferred stock. Consistent with its reduced ownership interest, the Company has commenced reporting its investment in CPE under the equity method of accounting. The consolidated financial statements have been restated to reflect EBS under the equity method of accounting for all periods presented. The Company's previous ownership interest in Tri-Star common stock represented 37 percent and 30 percent of the outstanding common shares at December 17, 1987, and December 31, 1986, respectively. The restatement had no effect on shareholders' equity, income from continuing operations, net income or related per share amounts.

A summary of financial information for CPE, Tri-Star and related Tri-Star investment and equity income is presented below (in thousands). The operating results and financial position presented for CPE are those of EBS, which is treated as the surviving entity for financial reporting purposes. The consolidated balance sheet data as of December 17, 1987, reflects the consolidation of Tri-Star into EBS and the issuance of \$100 million of adjustable rate preferred stock.

	December 17, 1987 Consolidated	December 31, 1986	
		EBS	Tri-Star
Current assets	\$1,181,942	\$ 624,407	\$216,491
Noncurrent assets	2,450,022	2,146,306	509,699
Total assets	<u>\$3,631,964</u>	<u>\$2,770,713</u>	<u>\$726,190</u>
Current liabilities	\$1,018,263	\$ 733,747	\$268,653
Noncurrent liabilities	1,473,479	705,947	241,450
Total liabilities	<u>\$2,491,742</u>	<u>\$1,439,694</u>	<u>\$510,103</u>
Net assets	<u>\$1,140,222</u>	<u>\$1,331,019</u>	<u>\$216,087</u>
Company equity investments at December 31	\$ 989,409	\$1,436,707	

On September 29, 1987, T.C.C. Beverages Ltd. (TCC), a Canadian bottling company composed of substantially all of the Company-owned bottling operations in Canada, completed an initial public offering of 51 percent of its stock. The Company recognized a non-cash gain of approximately \$40 million as a result of this transaction. TCC includes C.C. Bottling Co. Consolidated Ltd. which was acquired on July 15, 1987, for approximately \$53 million. Consistent with its reduced ownership interest, the Company has commenced reporting its investment in TCC under the equity method of accounting. The consolidated financial statements have been restated to reflect TCC under the equity method of accounting for all periods presented. The restatement had no effect on shareholders' equity, income from continuing operations, net income or related per share amounts.

A summary of financial information for the companies mentioned above for the periods in which the Company has reported equity income and other equity investees (none of which is individually significant) is as follows (in thousands):

December 31,	1987	1986
Current assets	\$ 695,193	\$185,889
Noncurrent assets	1,472,997	264,343
Total assets	<u>\$2,168,190</u>	<u>\$450,232</u>
Current liabilities	\$ 471,225	\$135,560
Noncurrent liabilities	1,050,256	166,863
Total liabilities	<u>\$1,521,481</u>	<u>\$302,423</u>
Net assets	<u>\$ 646,709</u>	<u>\$147,809</u>
Company equity investments	<u>\$ 320,575</u>	<u>\$105,652</u>

Year Ended December 31,	1987	1986	1985
Net operating revenues	\$1,810,244	\$598,383	\$511,872
Cost of goods	1,110,568	401,116	338,423
Gross profit	<u>\$ 699,676</u>	<u>\$197,267</u>	<u>\$173,449</u>
Income before income taxes	<u>\$ 27,240</u>	<u>\$ 21,373</u>	<u>\$ 22,098</u>
Net income	<u>\$ 17,712</u>	<u>\$ 13,680</u>	<u>\$ 14,152</u>
Company equity in earnings	<u>\$ 13,506</u>	<u>\$ 12,005</u>	<u>\$ 11,934</u>

The market value of the Company's investments in publicly traded equity investees exceeded the Company's carrying value at December 31, 1987, by approximately \$44 million. In addition, the Company had an investment of approximately \$40 million in

CCFC, a wholly owned unconsolidated subsidiary, at December 31, 1987 and 1986. Total assets of CCFC were approximately \$349 million and \$292 million at December 31, 1987 and 1986, respectively. Net income of CCFC was approximately \$5.3 million, \$4.2 million and \$3.4 million in 1987, 1986 and 1985, respectively. In 1988, the Company will consolidate CCFC in accordance with FASB Statement No. 94 "Consolidation of All Majority-Owned Subsidiaries." Such consolidation will cause an increase in consolidated indebtedness but, in the opinion of management, will not have a material effect on the Company's financial position or results of operations.

4. **ACCOUNTS PAYABLE AND ACCRUED EXPENSES** are composed of the following amounts (in thousands):

December 31,	1987	1986
Trade accounts payable	\$1,356,949	\$1,099,466
Other	73,244	98,941
	<u>\$1,430,193</u>	<u>\$1,198,407</u>

#### 5. **SHORT-TERM BORROWINGS AND CREDIT ARRANGEMENTS.**

Loans and notes payable consist of commercial paper and notes payable to banks and other financial institutions.

Under lines of credit and other credit facilities for short-term debt with various financial institutions, the Company, including CCFC, may borrow up to \$834 million. These lines of credit are subject to normal banking terms and conditions. At December 31, 1987, the unused portion of the credit lines was \$771 million. Some of the financial arrangements require compensating balances which are not material.

6. **ACCRUED TAXES** are composed of the following amounts (in thousands):

December 31,	1987	1986
Income taxes	\$389,846	\$277,135
Sales, payroll and miscellaneous taxes	64,467	67,006
	<u>\$454,313</u>	<u>\$344,141</u>



7. **LONG-TERM DEBT** consists of the following amounts (in thousands):

December 31,	1987	1986
10 $\frac{3}{8}$ % notes due June 1, 1988	\$ 99,862	\$ 99,530
11 $\frac{3}{8}$ % notes due November 28, 1988	100,000	100,000
12 $\frac{3}{4}$ % notes due August 1, 1989	99,921	99,870
11 $\frac{3}{4}$ % notes due October 16, 1991 (redeemable after October 16, 1988)	99,864	99,829
11 $\frac{3}{8}$ % notes due November 28, 1991	83,120	80,793
9 $\frac{7}{8}$ % notes due August 1, 1992 (redeemable after July 31, 1989)	98,999	98,780
9 $\frac{7}{8}$ % notes due November 26, 1992 (redeemable after November 26, 1989)	100,000	100,000
5 $\frac{3}{4}$ % notes due April 24, 1996	249,098	189,156
Other	86,097	44,346
	<u>1,016,961</u>	<u>912,304</u>
Less current portion	<u>213,609</u>	<u>4,628</u>
	<u>\$ 803,352</u>	<u>\$907,676</u>

Notes outstanding at December 31, 1987, were issued outside the United States and are redeemable at the Company's option under certain conditions related to U.S. and foreign tax laws. The 9 $\frac{7}{8}$  percent notes due November 26, 1992, were issued with detachable warrants which grant the holder the right to receive additional notes bearing the same interest rate and maturing in 1992. The warrants require the surrender of the original bond on or before November 26, 1989; thereafter, the warrants require the payment of one thousand dollars plus accrued interest. The 5 $\frac{3}{4}$  percent notes due April 24, 1996, of which \$144 million has been designated as a hedge against the Company's net investment in Coca-Cola (Japan) Company, Ltd., are denominated in Japanese yen.

Other long-term debt consists of various mortgages and notes with maturity dates ranging from 1988 to 2008. Interest on a portion of this debt varies with the changes in the prime rate, and the weighted average interest rate applicable to the remainder is approximately 10 percent.

Maturities of long-term debt for the five years succeeding December 31, 1987, are as follows (in thousands):

1988	\$213,609
1989	118,558
1990	9,412
1991	191,066
1992	208,307

The above notes include various restrictions, none of which are presently significant to the Company.

The Company is contingently liable for guarantees of indebtedness owed by some of its independent bottling licensees (\$93 million), CCFC (\$256 million) and others, totaling approximately \$394 million at December 31, 1987. In addition, the Company has guaranteed the collection of certain accounts receivable and contract rights sold by CPE with recourse which had uncollected balances of approximately \$325 million at December 31, 1987. CPE has agreed to indemnify the Company against losses, if any, which could arise from such guarantees.

8. **PENSION PLANS.** The Company and its subsidiaries sponsor and/or contribute to various pension plans covering substantially all U.S. employees and certain employees in non-U.S. locations. In the United States, the benefits are based on years of service and the employee's compensation in certain periods in the last eleven years of employment. Also, approximately 1,634 covered individuals are employees of CCE, a former subsidiary. Pension costs are generally funded currently. In 1987, the Company adopted FASB Statement No. 87 "Employers' Accounting for Pensions" for its U.S. pension plans. All 1987 disclosures for U.S. defined benefit plans reflect such adoption. This adoption decreased 1987 pension expense by approximately \$13 million.

Pension expense for continuing operations amounted to approximately \$16 million in 1987, \$29 million in 1986 and \$33 million in 1985. Net pension cost for U.S. plans in 1987 included the following components (in thousands):

Service cost—benefits earned during the period	\$10,447
Interest cost on projected benefit obligation	30,502
Actual return on plan assets	(33,439)
Net amortization and deferral	(3,926)
Net periodic pension cost	<u>\$ 3,584</u>

The following table sets forth the funded status for the Company's U.S. defined benefit plans at December 31, 1987 (in thousands):

Actuarial present value of benefit obligation	
Vested benefit obligation	<u>\$292,097</u>
Accumulated benefit obligation	<u>\$317,570</u>
Projected benefit obligation	<u>\$399,479</u>
Plan assets at fair value (primarily listed stocks, bonds and U.S. government securities)	<u>454,333</u>
Plan assets in excess of projected benefit obligation	<u>54,854</u>
Unrecognized net loss	50
Unrecognized net asset at transition	<u>(58,488)</u>
Accrued pension asset (liability) included in the consolidated balance sheet	<u>\$ (3,584)</u>

The weighted average discount rate and rate of increase in future compensation levels used in determining the 1987 actuarial present value of the projected benefits obligation for the Company's plans were 8 percent and 6 percent, respectively. The expected long-term rate of return on assets used for the majority of the Company's plans was also 8 percent.

In 1986, the present value of accumulated plan benefits (as determined principally under the aggregate cost method) for the Company's U.S. defined benefit plans was \$272 million (\$250 million vested and \$22 million nonvested) and the fair value of plan assets available for benefits was \$378 million.

The weighted average assumed rates of return used in determining the actuarial present value of accumulated plan benefits were 8 percent for 1986 and 9 percent for 1985. This change in the assumed rate of return and a plan amendment increased the actuarial present value of accumulated plan benefits by approximately \$48 million at January 1, 1986, and decreased 1986 pension expense by approximately \$7 million.

The Company has various pension plans in locations outside the United States. These locations are not required to report to U.S. governmental agencies and do not determine the actuarial present value of accumulated plan benefits or net assets available for benefits as calculated and disclosed above. For such plans, the value of the pension funds and balance sheet accruals exceeded the actuarially computed value of benefits as of January 1, 1987 and 1986, as estimated by consulting actuaries.

The Company also has a plan that provides post-retirement health care and life insurance benefits to virtually all employees who retire with a minimum of five years of service; the annual cost of these benefits is not significant.

**9. INCOME TAXES.** The components of income before income taxes for both continuing and discontinued operations consist of the following (in thousands):

<i>Year Ended December 31,</i>	<i>1987</i>	<i>1986</i>	<i>1985</i>
United States	\$ 356,434	\$ 592,307	\$ 456,209
Foreign	1,053,729	811,146	609,068
	<b>\$1,410,163</b>	<b>\$1,403,453</b>	<b>\$1,065,277</b>

Income taxes for continuing and discontinued operations consist of the following amounts (in thousands):

<i>Year Ended December 31,</i>	<i>United States</i>	<i>State &amp; Local</i>	<i>Foreign</i>	<i>Total</i>
<b>1987</b>				
Current	\$ 49,851	\$15,823	\$457,059	\$522,733
Deferred	(34,167)	(4,615)	10,076	(28,706)
<b>1986</b>				
Current	\$ (9,850)	\$ 11,703	\$ 424,953	\$ 426,806
Deferred	41,762	1,834	(1,296)	42,300
<b>1985</b>				
Current	\$ 1,797	\$ 4,567	\$ 274,435	\$ 280,799
Deferred	36,005	4,765	21,409	62,179

The entertainment business is included in the Company's consolidated federal income tax return through December 17, 1987. The Company incurred U.S. federal income taxes in all periods presented. For financial reporting purposes, the 1986 tax benefit for current U.S. taxes results from the adoption of the equity method of accounting for the Company's Entertainment Business Sector and certain accounting reclassifications relating thereto.

A reconciliation of the statutory U.S. federal rate and effective rates is as follows:

<i>Year Ended December 31,</i>	<i>1987</i>	<i>1986</i>	<i>1985</i>
Statutory rate	40.0%	46.0%	46.0%
State income taxes—net of federal benefit	.5	.5	.5
Earnings in jurisdictions taxed at lower rates	(3.7)	(4.5)	(5.7)
Transactions taxed at capital gain rates	—	(4.3)	—
Equity income	(3.4)	(5.1)	(7.1)
Other—net	1.6	.8	(1.5)
	<b>35.0%</b>	<b>33.4%</b>	<b>32.2%</b>

Investment tax credits included in determination of above rates (in millions):

\$ —	\$ 2.9	\$12.9
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Deferred taxes are provided principally for depreciation, certain employment-related expenses and certain capital transactions which are recognized in different years for financial statement and income tax purposes. The Company has manufacturing facilities in Puerto Rico that operate under a Puerto Rican tax exemption that expires in 1995.



Appropriate U.S. and foreign income taxes have been provided for earnings of subsidiary companies that are expected to be remitted to the parent company in the near future. Accumulated unremitted earnings of foreign subsidiaries that are expected to be required for use in the foreign operations were approximately \$280 million at December 31, 1987, exclusive of amounts, which if remitted, would result in little or no tax.

**10. STOCK OPTIONS AND OTHER STOCK PLANS.** The amended 1983 Restricted Stock Award Plan provides that 3,000,000 shares of restricted common stock may be granted to certain officers and key employees of the Company. The shares are subject to forfeiture if the employee leaves the Company for reasons other than death, disability or retirement and may not be transferred by the employee prior to death, disability or retirement. The employee receives dividends on the shares and may vote the shares. The market value of the shares at the date of grant is charged to operations over the vesting periods. Shares granted were 178,500 shares, 210,000 shares and 282,000 shares in 1987, 1986 and 1985, respectively. At December 31, 1987, 946,500 shares were available to be granted under this Plan.

The Company's 1987 Stock Option Plan covers 8,000,000 shares of the Company's common stock. The Plan provides for the granting of stock appreciation rights and stock options to certain officers and employees. Stock appreciation rights permit the holder, upon surrendering all or part of the related stock option, to receive cash, common stock or a combination thereof, in an amount up to 100 percent of the difference between the market price and the option price. Included in options outstanding at December 31, 1987, were various options granted under previous plans and other options granted not as a part of an option plan.

Further information relating to options is as follows:

<i>December 31,</i>	<i>1987</i>	<i>1986</i>	<i>1985</i>
Options outstanding at January 1	<b>6,065,924</b>	5,662,155	5,599,335
Options granted in the year	<b>1,111,850</b>	1,800,400	1,444,350
Options exercised in the year	<b>(1,339,584)</b>	(1,194,183)	(1,081,938)
Options cancelled in the year	<b>(227,843)</b>	(202,448)	(299,592)
Options outstanding at December 31	<b>5,610,347</b>	6,065,924	5,662,155
Options exercisable at December 31	<b>3,168,149</b>	3,153,137	3,192,978
Shares available at December 31 for options which may be granted	<b>7,539,184</b>	459,454	2,128,263
Option prices per share			
Exercised in the year	<b>\$10-\$39</b>	\$10-\$24	\$10-\$21
Unexercised at year-end	<b>\$10-\$45</b>	\$10-\$39	\$10-\$24

In 1985, the Company entered into Performance Unit Agreements, whereby certain officers will be granted cash awards based on the difference in the market value of 555,000 shares of the Company's common stock at the measurement dates and the base price of \$20.63, the market value as of January 2, 1985. Under these agreements, the cost will be charged to operations over the vesting period.

**11. ACQUISITIONS AND DIVESTITURES.** In December 1986, the Company acquired The Coca-Cola Bottling Company of Southern Florida, Inc. (Miami CCBC) for approximately \$325 million less assumed debt and Coca-Cola bottling companies affiliated with Mr. Crawford Rainwater, Jr. (Rainwater Bottlers) for approximately \$211 million less assumed debt. In July 1987, the Company sold a significant portion of the Rainwater Bottlers to Coca-Cola Enterprises Inc. for approximately \$173 million. The remaining

operations of Rainwater Bottlers were sold in August 1987 for approximately \$40 million. The total proceeds from these sales approximated the Company's carrying value. The investment in Miami CCBC was reported on the cost method based on management's intention to dispose of it. (See Note 15.)

In December 1985, the Company acquired Nutri-Foods Int'l., Inc. (Nutri-Foods), a manufacturer of juice-based frozen desserts. The total purchase price consisted of approximately \$30 million in cash. The operating results of Nutri-Foods have been included in the consolidated statements of income from the date of acquisition and are not material.

In 1985, the Company sold capital stock of several U.S. bottling operations resulting in gains of approximately \$67 million.

**12. DISCONTINUED OPERATIONS.** In December 1985, the Company sold Presto Products Incorporated and Winkler/Flexible Products, Inc., manufacturers of plastic products, for approximately \$112 million. Operating results for these companies have been reported as discontinued operations. Net revenues of discontinued operations were \$235 million in 1985.

**13. PROVISIONS FOR RESTRUCTURED OPERATIONS AND DISINVESTMENT.** In 1987, the Company recorded a \$36 million charge related to restructuring activities in its Foods Business Sector. This charge relates to transitional matters associated with the change in industry environment and a revised operating strategy concurrent with a change in senior management.

In the fourth quarter of 1986, the Company recorded provisions against earnings for restructured operations and disinvestment aggregating \$180 million. These provisions included \$135 million related principally to the revaluation of certain assets and the estimated cost of closing various production facilities as a result of changes in the conduct of the Company's U.S. soft drink business. The remaining \$45 million related to the Company's disinvestment from South Africa.

**14. WORKING CAPITAL.** Decreases (increases) in working capital (excluding cash, marketable securities, temporary investments, notes receivable from CPE, loans and notes payable, current portion of long-term debt and dividends in-kind), by component, were (in thousands):

	1987	1986	1985
Trade accounts receivable	\$ 409	\$ (98,117)	\$(61,406)
Inventories	(81,303)	(47,109)	(74,709)
Prepaid expenses and other assets	47,988	(178,928)	(77,685)
Accounts payable and accrued expenses	195,416	120,066	115,750
Accrued taxes	110,172	134,704	20,829
	<u>\$272,682</u>	<u>\$ (69,384)</u>	<u>\$(77,221)</u>

**15. SUBSEQUENT EVENTS.** In January 1988, the Company purchased The Coca-Cola Bottling Company of Memphis, Tenn. (Memphis CCBC) and subsequently sold Memphis CCBC and Miami CCBC to Coca-Cola Enterprises Inc. for approximately \$500 million in cash plus the assumption of indebtedness, the total of which approximated the Company's carrying value.



16. **LINES OF BUSINESS.** Information concerning operations in different lines of business at December 31, 1987, 1986 and 1985 and for the years then ended is presented below (in millions). The Company operates principally in the soft drink industry. Citrus, fruit drinks, coffee and other products are included in the Foods Business Sector.

Intercompany transfers between sectors are not material. Prior years' information has been restated to account for Columbia Pictures Entertainment, Inc. and T.C.C. Beverages Ltd. under the equity method. (See Note 3 to the consolidated financial statements.)

1987	Soft Drinks		Foods	Corporate	Consolidated
	USA	International			
Net Operating Revenues	\$2,120.1	\$4,109.2	\$1,414.3	\$ 14.7	\$7,658.3
Operating Income	323.6	1,108.9	66.6(a)	(175.3)	1,323.8
Identifiable Assets	2,047.4	2,126.7	627.3	3,554.2(d)	8,355.6
Capital Expenditures	78.0	92.3	55.4	73.9	299.6
Depreciation and Amortization of Goodwill	60.1	42.6	28.8	22.0	153.5

1986	Soft Drinks		Foods	Corporate	Consolidated
	USA	International			
Net Operating Revenues	\$2,016.3	\$3,628.6	\$1,319.8	\$ 11.9	\$6,976.6
Operating Income	158.3(b)	843.0(c)	120.3	(224.5)	897.1
Identifiable Assets	1,424.6	1,862.4	593.1	3,604.0(d)	7,484.1
Capital Expenditures	73.7	102.3	71.8	98.0	345.8
Depreciation and Amortization of Goodwill	60.6	48.0	26.4	19.4	154.4

1985	Soft Drinks		Foods	Corporate	Consolidated
	USA	International			
Net Operating Revenues	\$1,864.7	\$2,676.7	\$1,326.5	\$ 11.3	\$5,879.2
Operating Income	217.2	612.8	117.6	(140.9)	806.7
Identifiable Assets	1,489.9	1,565.5	486.1	2,704.8(d)	6,246.3
Capital Expenditures	112.3	101.5	113.8	84.2	411.8
Depreciation and Amortization of Goodwill	49.1	46.4	21.2	16.7	133.4

(a) Includes provisions for restructured operations aggregating \$36 million. (b) Includes provisions for restructured operations aggregating \$135 million. (c) Includes provisions for disinvestment aggregating \$45 million. (d) Corporate identifiable assets are composed principally of marketable securities, investments and fixed assets. At December 31, 1987, corporate assets included equity investments in Coca-Cola Enterprises Inc., Columbia Pictures Entertainment, Inc. and T.C.C. Beverages Ltd. of \$749.2 million, \$989.4 million and \$84.5 million, respectively. On a comparable basis, the amounts were \$709.3 million, \$1,436.7 million and \$87.7 million, respectively, at December 31, 1986; and \$402.7 million, \$1,442.8 million and \$74.1 million, respectively, at December 31, 1985.

## Notes to Consolidated Financial Statements

16. **LINES OF BUSINESS.** Information concerning operations in different lines of business at December 31, 1987, 1986 and 1985 and for the years then ended is presented below (in millions). The Company operates principally in the soft drink industry. Citrus, fruit drinks, coffee and other products are included in the Foods Business Sector.

Intercompany transfers between sectors are not material. Prior years' information has been restated to account for Columbia Pictures Entertainment, Inc. and T.C.C. Beverages Ltd. under the equity method. (See Note 3 to the consolidated financial statements.)

1987	Soft Drinks		Foods	Corporate	Consolidated
	USA	International			
Net Operating Revenues	\$2,120.1	\$4,109.2	\$1,414.3	\$ 14.7	\$7,658.3
Operating Income	323.6	1,108.9	66.6(a)	(175.3)	1,323.8
Identifiable Assets	2,047.4	2,126.7	627.3	3,554.2(d)	8,355.6
Capital Expenditures	78.0	92.3	55.4	73.9	299.6
Depreciation and Amortization of Goodwill	60.1	42.6	28.8	22.0	153.5

1986	Soft Drinks		Foods	Corporate	Consolidated
	USA	International			
Net Operating Revenues	\$2,016.3	\$3,628.6	\$1,319.8	\$ 11.9	\$6,976.6
Operating Income	158.3(b)	843.0(c)	120.3	(224.5)	897.1
Identifiable Assets	1,424.6	1,862.4	593.1	3,604.0(d)	7,484.1
Capital Expenditures	73.7	102.3	71.8	98.0	345.8
Depreciation and Amortization of Goodwill	60.6	48.0	26.4	19.4	154.4

1985	Soft Drinks		Foods	Corporate	Consolidated
	USA	International			
Net Operating Revenues	\$1,864.7	\$2,676.7	\$1,326.5	\$ 11.3	\$5,879.2
Operating Income	217.2	612.8	117.6	(140.9)	806.7
Identifiable Assets	1,489.9	1,565.5	486.1	2,704.8(d)	6,246.3
Capital Expenditures	112.3	101.5	113.8	84.2	411.8
Depreciation and Amortization of Goodwill	49.1	46.4	21.2	16.7	133.4

(a) Includes provisions for restructured operations aggregating \$36 million. (b) Includes provisions for restructured operations aggregating \$135 million. (c) Includes provisions for disinvestment aggregating \$45 million. (d) Corporate identifiable assets are composed principally of marketable securities, investments and fixed assets. At December 31, 1987, corporate assets included equity investments in Coca-Cola Enterprises Inc., Columbia Pictures Entertainment, Inc. and T.C.C. Beverages Ltd. of \$749.2 million, \$989.4 million and \$84.5 million, respectively. On a comparable basis, the amounts were \$709.3 million, \$1,436.7 million and \$87.7 million, respectively, at December 31, 1986; and \$402.7 million, \$1,442.8 million and \$74.1 million, respectively, at December 31, 1985.



17. **OPERATIONS IN GEOGRAPHIC AREAS.** Information about the Company's operations in different geographic areas at December 31, 1987, 1986 and 1985 and for the years then ended is presented below (in millions). Intercompany transfers between geographic areas are

not material. Prior years' information has been restated to account for Columbia Pictures Entertainment, Inc. and T.C.C. Beverages Ltd. under the equity method. (See Note 3 to the consolidated financial statements.)

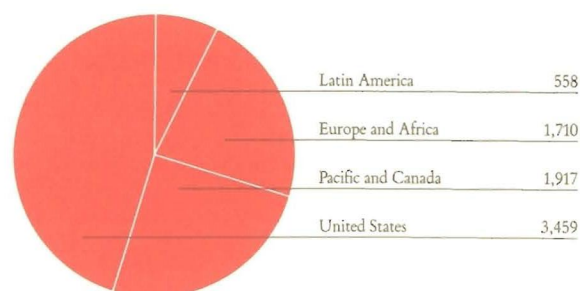
1987	United States	Latin America	Europe and Africa	Pacific and Canada	Corporate	Consolidated
Net Operating Revenues	\$3,459.1	\$558.0	\$1,709.5	\$1,917.0	\$ 14.7	\$7,658.3
Operating Income	384.5(a)	153.2	508.1	453.3	(175.3)	1,323.8
Identifiable Assets	2,625.9	368.3	1,040.8	766.4	3,554.2(d)	8,355.6

1986	United States	Latin America	Europe and Africa	Pacific and Canada	Corporate	Consolidated
Net Operating Revenues	\$3,277.9	\$555.5	\$1,628.9	\$1,502.4	\$ 11.9	\$6,976.6
Operating Income	273.8(b)	140.8	354.6(c)	352.4	(224.5)	897.1
Identifiable Assets	1,980.8	383.7	895.4	620.2	3,604.0(d)	7,484.1

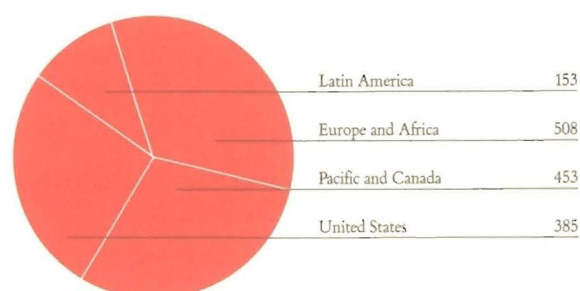
1985	United States	Latin America	Europe and Africa	Pacific and Canada	Corporate	Consolidated
Net Operating Revenues	\$3,147.2	\$452.4	\$1,240.8	\$1,027.5	\$ 11.3	\$5,879.2
Operating Income	333.7	90.9	294.4	228.6	(140.9)	806.7
Identifiable Assets	1,950.9	380.8	804.5	405.3	2,704.8(d)	6,246.3

Identifiable Liabilities of Operations Outside the United States amounted to approximately \$949.6 million, \$813.2 million and \$731.9 million at December 31, 1987, 1986 and 1985, respectively. (a) Includes provisions for restructured operations aggregating \$36 million. (b) Includes provisions for restructured operations aggregating \$135 million. (c) Includes provisions for disinvestment aggregating \$45 million. (d) Corporate identifiable assets are composed principally of marketable securities, investments and fixed assets. At December 31, 1987, corporate assets included equity investments in Coca-Cola Enterprises Inc., Columbia Pictures Entertainment, Inc. and T.C.C. Beverages Ltd. of \$749.2 million, \$989.4 million and \$84.5 million, respectively. On a comparable basis, the amounts were \$709.3 million, \$1,436.7 million and \$87.7 million, respectively, at December 31, 1986; and \$402.7 million, \$1,442.8 million and \$74.1 million, respectively, at December 31, 1985.

**Net Operating Revenues (\$ Millions)**



**Operating Income (\$ Millions)**



Board of Directors and Shareholders  
The Coca-Cola Company  
Atlanta, Georgia

We have examined the consolidated balance sheets of The Coca-Cola Company and subsidiaries as of December 31, 1987 and 1986, and the related consolidated statements of income, shareholders' equity and changes in financial position for each of the three years in the period ended December 31, 1987. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of The Coca-Cola Company and subsidiaries at December 31, 1987 and 1986, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1987, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, to the equity method of accounting for Columbia Pictures Entertainment, Inc. and T.C.C. Beverages Ltd. as described in Note 3 to the consolidated financial statements.

*Ernst & Whinney*

Atlanta, Georgia  
February 1, 1988



**QUARTERLY RESULTS OF OPERATIONS** (In millions except per share data)

	Net Operating Revenues		Gross Profit	
	1987	1986	1987	1986
First quarter	\$1,547.8	\$1,428.4	\$ 807.7	\$ 717.3
Second quarter	2,104.4	1,899.4	1,137.2	980.6
Third quarter	2,014.4	1,927.8	1,082.0	950.3
Fourth quarter	1,991.7	1,721.0	998.3	874.5
	<b>\$7,658.3</b>	<b>\$6,976.6</b>	<b>\$4,025.2</b>	<b>\$3,522.7</b>

	Net Income		Net Income Per Share	
	1987	1986	1987	1986
First quarter	\$ 185.4	\$ 161.2	\$ .49	\$ .42
Second quarter	266.4	225.5	.70	.58
Third quarter	271.4	233.1	.72	.60
Fourth quarter	192.9	314.5	.52	.82
	<b>\$ 916.1</b>	<b>\$ 934.3</b>	<b>\$ 2.43</b>	<b>\$ 2.42</b>

Quarterly information has been restated to account for Columbia Pictures Entertainment, Inc. and T.C.C. Beverages Ltd. under the equity method. (See Note 3 to the consolidated financial statements.)

The third quarter of 1987 included provisions for restructured operations aggregating \$36 million and a \$40 million gain on sale of stock by T.C.C. Beverages Ltd.

The fourth quarter of 1986 included provisions for restructured operations and disinvestment aggregating \$180 million and a \$375 million pretax gain on sale of stock by Coca-Cola Enterprises Inc.

## Board of Directors

### **Herbert A. Allen**

*President and Chief Executive Officer  
The investment banking firm  
Allen & Company Incorporated*

### **Anne Cox Chambers**

*Chairman  
Atlanta Newspapers*

### **Charles W. Duncan, Jr.**

*Chairman of the Board  
The private investment firm  
Duncan, Cook & Co.*

### **Richard J. Flamson III**

*Chairman, Board of Directors,  
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Security Pacific Corporation  
Chairman, Board of Directors  
Security Pacific National Bank*

### **Roberto C. Goizueta**

*Chairman, Board of Directors,  
and Chief Executive Officer  
The Coca-Cola Company*

### **Donald R. Keough**

*President and  
Chief Operating Officer  
The Coca-Cola Company*

### **James T. Laney**

*President  
Emory University*

### **Donald F. McHenry**

*University Research  
Professor of Diplomacy  
and International Affairs  
Georgetown University*

### **Paul F. Orefice**

*Chairman of the Board  
The Dow Chemical Company*

### **James D. Robinson, III**

*Chairman, Board of Directors,  
and Chief Executive Officer  
American Express Company*

### **James M. Sibley**

*Partner in the law firm  
King & Spalding*

### **William B. Turner**

*Chairman, Executive Committee  
of Board of Directors  
The diversified company  
W. C. Bradley Co.  
Chairman, Executive Committee  
of Board of Directors  
CB&T Bancshares, Inc.  
Chairman, Board of Directors  
Columbus Bank & Trust Company*

### **Peter V. Ueberroth**

*Commissioner  
Major League Baseball*

### **James B. Williams**

*Vice Chairman, Board of Directors  
Sun Trust Banks, Inc.  
President  
Trust Company of Georgia  
President  
Sun Banks, Inc.*

## Corporate Officers

### **Roberto C. Goizueta**

*Chairman, Board of Directors,  
and Chief Executive Officer*

### **Donald R. Keough**

*President and  
Chief Operating Officer*

### **SENIOR EXECUTIVE**

#### **VICE PRESIDENT**

**Claus M. Halle**

### **EXECUTIVE VICE PRESIDENTS**

**John W. Georgas**

**A. Garth Hamby**

**Ira C. Herbert**

**Francis T. Vincent, Jr.**

### **SENIOR VICE PRESIDENTS**

**M. A. Gianturco**

**M. Douglas Ivester**

**Weldon H. Johnson**

**Robert A. Keller**

**Earl T. Leonard, Jr.**

**Alex Malaspina**

**Edwin R. Mellett**

**Douglas A. Saarel**

**R. V. Waltemeyer**

**Carl Ware**

### **VICE PRESIDENTS**

**William W. Allison**

**William R. Buehler**

**Robert L. Callahan, Jr.**

**Philip J. Carswell, Jr.**

**Murray D. Friedman**

**John J. Gillin**

**Joseph R. Gladden, Jr.**

**Robert D. Guy**

**Gary P. Hite**

**W. Glenn Kernel**

**Gloria E. Lemos**

**William H. Lynn**

**S. W. Magruder**

**Maury C. Roe**

**Jack L. Stahl**

**Roy G. Stout**

**Harry E. Teasley, Jr.**

### **M. Douglas Ivester**

*Chief Financial Officer*

### **Robert A. Keller**

*General Counsel*

### **Philip J. Carswell, Jr.**

*Treasurer*

### **Jack L. Stahl**

*Controller*

### **Donald R. Greene**

*Secretary*

### **Executive Officers— Operating Units**

#### **NORTH AMERICA SOFT DRINK BUSINESS SECTOR**

**Edwin R. Mellett**

*President*

#### **INTERNATIONAL SOFT DRINK BUSINESS SECTOR**

**Claus M. Halle**

*President*

#### **FOODS BUSINESS SECTOR**

**Harry E. Teasley, Jr.**

*President*



## Shareholder Information

### COMMON STOCK

Ticker symbol: KO

Newspaper listing: CocaCl

The Coca-Cola Company is one of 30 companies in the Dow Jones Industrial Average.

Common stock of The Coca-Cola Company is listed and traded on the New York Stock Exchange, which is the principal market for the common stock, and also is traded on the Boston, Cincinnati, Midwest, Pacific and Philadelphia stock exchanges. Outside the United States, the Company's common stock is listed and traded on the German exchange in Frankfurt and on Swiss exchanges in Zurich, Geneva, Bern, Basel and Lausanne.

Shareholders of record at year-end: 102,143

Shares outstanding at year-end: 372 million

### DIVIDENDS

At its February 1988 meeting, the Company's Board of Directors increased the quarterly dividend to 30 cents per share, equivalent to an annual dividend of \$1.20 per share. The Company has increased dividends each of the last 26 years.

The Coca-Cola Company normally pays dividends four times a year, usually on April 1, July 1, October 1 and December 15. The Company has paid 267 consecutive quarterly dividends, beginning in 1920.

### DIVIDEND AND CASH INVESTMENT PLAN

All shareholders of record are invited to participate in the Dividend and Cash Investment Plan. The Plan provides a convenient, economical and systematic method of acquiring additional shares of the Company's common stock. The Plan permits shareholders of record to reinvest dividends from Company stock in shares of The Coca-Cola Company. Shareholders also may purchase Company stock through voluntary cash investments of up to \$60,000 per year.

All costs and commissions associated with joining and participating in the Plan are paid by the Company.

The Plan's administrator, Morgan Shareholder Services Trust Company, purchases stock for voluntary cash investments on or about the first of each month, and for dividend reinvestment on April 1, July 1, October 1 and December 15.

At year-end, 25 percent of shareholders of record were participants in the Plan. In 1987, shareholders invested \$6.9 million in dividends and more than \$6 million in cash in the Plan.

### STOCK PRICES

Below are New York Stock Exchange prices of The Coca-Cola Company stock, adjusted for a three-for-one stock split in June 1986.

Quarter	1987 High	Low	Close
Fourth	49.75	29.00	38.13
Third	53.13	42.88	48.38
Second	47.00	38.13	44.50
First	49.00	37.75	45.75
Quarter	1986 High	Low	Close
Fourth	39.63	33.75	37.75
Third	44.88	32.88	33.88
Second	41.83	32.83	41.83
First	36.67	25.58	35.08

### ANNUAL MEETING OF SHAREHOLDERS

April 20, 1988, at 9:00 a.m., local time

The Corporation Trust Company

1209 Orange Street

Wilmington, Delaware

### PUBLICATIONS

The Company's annual report on *Form 10-K* and quarterly report on *Form 10-Q* are available free of charge from the Office of the Secretary, The Coca-Cola Company, P.O. Drawer 1734, Atlanta, Georgia 30301.

A *Notice of Annual Meeting of Shareholders* and *Proxy Statement* are furnished to shareholders in advance of the annual meeting. *Progress Reports*, containing financial results and other information, are distributed quarterly to shareholders.

Also available from the Office of the Secretary are *The Coca-Cola Company in 1990*, *The Chronicle of Coca-Cola Since 1886* and other booklets about the Company and its products.

### EQUAL OPPORTUNITY POLICY

The Coca-Cola Company maintains a long-standing commitment to equal opportunity and affirmative action. The Company strives to create a working environment free of discrimination and harassment with respect to race, sex, color, national origin, religion, age, handicap, or being a veteran of the Vietnam era, as well as to make reasonable accommodations in the employment of qualified individuals with disabilities. The Company continued to increase the minority and female representation in 1987. In addition, the Company provides fair marketing opportunities to all suppliers and maintains programs to increase transactions with firms that are owned and operated by minorities and women.

#### CORPORATE OFFICES

The Coca-Cola Company  
One Coca-Cola Plaza, N.W.  
Atlanta, Georgia 30313  
(404) 676-2121

#### MAILING ADDRESS

The Coca-Cola Company  
P.O. Drawer 1734  
Atlanta, Georgia 30301

#### SHAREHOLDER ACCOUNT ASSISTANCE

For address changes, dividend checks, account consolidation, registration changes, lost stock certificates, stock holdings and the Dividend and Cash Investment Plan:

Registrar and Transfer Agent  
Morgan Shareholder Services Trust Company  
30 West Broadway  
New York, New York 10015  
(212) 587-6515

or

Office of the Secretary  
The Coca-Cola Company  
(404) 676-2777

#### INSTITUTIONAL INVESTOR INQUIRIES

(404) 676-5766

#### STOCKBROKER INQUIRIES

(404) 676-6272







*Dear Fellow Shareholder:*

In this year's Annual Report, you will find a discussion of the strategic objectives underlying your Company's investments in Coca-Cola Enterprises Inc., Columbia Pictures Entertainment, Inc., T.C.C. Beverages Ltd. and other companies around the world. In taking these initiatives, your Company may be on the leading edge of a broader reshaping of corporate America, a subject addressed in the attached article, which will be printed in the April-June issue of *Leaders* magazine.



Roberto C. Goizueta  
Chairman, Board of Directors,  
and Chief Executive Officer  
The Coca-Cola Company

## The Emerging Post-Conglomerate Era:

### Changing The Shape of Corporate America

By Roberto C. Goizueta  
Chairman, Board of Directors,  
and Chief Executive Officer  
The Coca-Cola Company

January 1988



“Change” has permeated the air breathed by corporate America for some time now. Books bearing titles such as *Reinventing the Corporation* and *The Renewal Factor* have made change a best-seller, if not quite a cliché.


What is going on? Is the handling of change just another managerial fad, destined, like “excellence,” to be enthusiastically embraced one year, discarded the next? I think not. Change itself is, after all, nothing new; the current pervasive emphasis on corporate change derives instead from the accelerated pace of change over the past few years. And the forces driving this acceleration, *e.g.*, the linking of financial markets around the world into a single world market, are emphatically here to stay. So while business experts, consultants and writers may soon wear out the rhetoric of change, I believe we may in fact be entering a new era in American capitalism, a time when change is elevated from a managerial and tactical concept to the structural level of the corporation itself.

### Corporate Structure Not a “Given”

Let me explain. Most commentators emphasizing the need for corporate openness, flexibility and change have focused on management styles, product development, marketing strategies—in short, on how a company operates, *given its structure*. But the company's structure should not be a “given.” The only “given” in capitalism is that a company's objective is to increase the value of its shareholders' investment. The company's structure itself is a variable, subject to change to the same degree as its personnel, products, plans and strategies. To take but one example, when Tom Peters writes about the necessity of “creating a corporate capacity for constant innovation,” I think he has in mind how the company *operates*. As I see management's challenge, it is to take that idea one step further, applying it to what the company *is*.

Of course, there is no such thing as a “typical” or “average” company, but favored forms of corporate organization do come and go. For the first half of this





century, most corporations were single-business entities, content to concentrate on, and only on, what they knew best. Some, including The Coca-Cola Company, were even single-product companies, sticking to their knitting with a vengeance. This simplest form of corporate structure has great strengths, but at some point in the mid-1950s, it began to seem dated, inflexible, single-revenue-stream dependent and terminally lacking in investor sex appeal.

### **Divisions As Tail Fins**

Its successor as the darling of corporate theorists, the conglomerate, seemed to many business commentators and analysts the perfect vehicle for achieving uninterrupted earnings growth in the more competitive post-war business environment. Thus, size became the *sine qua non* of American business. Corporations, like cars, were stretched, enlarged and remodeled; managements tacked on divisions and new businesses that, a few years later, looked as awkward as tail fins and were just about as functional.

In many conglomerates, the various businesses had little in common beyond the name of their parent, and any synergy among them was tenuous at best. Inevitably, the strain of managing such families of unrelated businesses began to take its toll; the conglomerate's size and diversity began to be viewed not as a sign of strength, but as an Achilles' heel. Just as inevitably, the financial needs and characteristics of a conglomerate's less important divisions were often incompatible with those of the core business. Since there was only one company, however, there could be only one capital structure, one balance sheet, to which the less important businesses had to accommodate their needs. This Procrustean approach to corporate structure was, obviously, in no one's best interest, and conglomerates began to fall from favor. Understanding them as an investment proposition became increasingly difficult.



### **The Birth of a Hybrid Form**

Even if the conglomerate's reign as most-favored corporate form is over, however, a return to dominance by single-business/product companies is highly unlikely. Instead, we are witnessing the birth of a new, hybrid form of corporate organization, one that eliminates or minimizes the shortcomings of its predecessors while maintaining their strengths.

The diversified corporation of the 1990s, in my view, will have a core business to which it devotes most of its attention and from which most of its profits come, but it will also have significant investments in other companies or businesses. The logic behind this model is both simple and compelling: businesses requiring different management focuses and having different financial characteristics and needs should be operated with capital structures tailored to those characteristics and needs. And if you accept the premise that the primary job of management is to increase shareholder wealth over time through

growth in earnings, cash flows and returns, then it follows that one of management's obligations is to run businesses that have different financial characteristics and needs with the financial or capital structures best suited to achieve these businesses' full potential for growth and returns. This logic has led us at The Coca-Cola Company to develop what some commentators have simplistically labelled "the 49 percent solution."

By way of background, in 1982 we acquired Columbia Pictures Industries, Inc., which we enlarged and reshaped into our Entertainment Business Sector. The move into the entertainment business surprised those who were not familiar with our strategic objectives, but it produced attractive results in short order. By 1986, the Entertainment Business Sector had become the world's largest filmed entertainment company, in terms of earnings. Last year we combined the entertainment assets of our Entertainment Business Sector with Tri-Star Pictures, Inc., in which we already held a sizeable interest, and today, after distributing a one-time dividend in-kind to



our shareholders, we own 49 percent of the combined company, called Columbia Pictures Entertainment, Inc.

The “new Columbia” is in many ways the entertainment analogue of Coca-Cola Enterprises Inc. (CCE), which we created in 1986. CCE brought together in a publicly owned company, of which we hold 49 percent, bottling operations accounting for 40 percent of our U.S. soft drink volume. In Canada, we accomplished a similar reconfiguration last year through the formation of T.C.C. Beverages Ltd.

### **Partnership with the Public**

The creation of each of these members of the Coca-Cola group of companies generated widespread interest in the business media. The media have not, however, always focused on the true significance of our moves: we have merely changed the ways in which we structure and finance our soft drink bottling business and our entertainment business. Rather than relying entirely on our own balance sheet, we have gone into “partnership” with the public in order to meet the different financial needs of our various businesses.

The most important of these financial differences involves the use of leverage: the accepted and appropriate debt-to-total-capital ratio for soft drink bottling and entertainment companies is significantly higher than that normally used in our core business, the manufacture and sale of soft drink syrups and concentrates. As members of the Coca-Cola group of companies, CCE, T.C.C. and the new Columbia are able to leverage their assets to a far greater degree than when they were consolidated into The Coca-Cola Company.

### **Fit and Flexibility**

While financial “fit” is important, if this structure is to become a model for the American corporation of the 1990s, it must also be flexible enough to allow the former “parent” to maintain influence in these “affiliated businesses” commensurate with its status as super-minority shareholder in them. This is, of course, in instances in which outright majority ownership is not advisable. One mechanism for ensuring an appropriate degree of influence is representation on the board of directors. Within the Coca-Cola



group of companies, Donald R. Keough, President and Chief Operating Officer of The Coca-Cola Company, today chairs the boards of CCE and Columbia Pictures Entertainment, while Ira C. Herbert, Executive Vice President of The Coca-Cola Company, chairs T.C.C.'s board.

Board membership is not, however, the only route to influence, just as super-minority ownership is not the only device allowing for development of appropriate capital structures. Joint ventures, partnerships and equity investments of as little as 20 percent can produce the same results. In our international soft drink bottling business, we have, over the past six years, made equity investments in, and entered into joint ventures with, bottlers accounting for one-fourth of our worldwide soft drink volume. These investments have allowed us to strengthen our worldwide bottling network without sacrificing the advantages of our 90-year-old franchise system or unnecessarily encumbering our own balance sheet.

### **Building Volume through Equity Participations**

In 1981, for example, we entered into a bottling joint venture in the Philippines with the San Miguel group. For an investment of \$30 million, we obtained a 30 percent interest in, and a management contract with, what was then a struggling bottler. In just six years, our market share has doubled to an industry-leading 65 percent. Similarly, in 1986, we purchased a 49 percent stake in the Taiwan Coca-Cola Bottling Co., obtaining a management contract as well. After only one year under the new arrangement, volume of Company products has doubled.

Perhaps the best example of our flexible approach to developing appropriate structures for our bottling business is one that occurred last year in Great Britain. After 33 years of bottling competing cola products, Cadbury Schweppes joined forces with Coca-Cola Great Britain in a joint venture to bottle and sell each other's soft drink products throughout Great Britain. In the first nine months of operation, the new partnership produced volume increases of 40 percent for Coca-Cola Company products.



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While it is far too early to see the results of the creation of Columbia Pictures Entertainment, the strategic basis for the move is identical to the rationale underlying our bottling investments. We have created a significantly larger and stronger company than either the Entertainment Business Sector or Tri-Star was. Because of its free-standing capital structure, moreover, it will have increased financial flexibility, allowing it to implement policies more appropriate for a pure entertainment company than for a sector of The Coca-Cola Company. In addition to its increased ability to leverage its assets, it will be free to reinvest more heavily in its business than the Entertainment Business Sector could, because investors do not expect pure entertainment companies to pay dividends at the relatively high ratio expected of The Coca-Cola Company.

### **Benefits to Our Shareholders**

At the same time, The Coca-Cola Company's shareholders benefit from participation in an enhanced entertainment play, from our freeing cash flow for other uses, and from the Company's additional borrowing capacity. The new corporate structure also leaves The Coca-Cola Company with a



balance sheet that more accurately reflects the strengths of our core business. Our balance sheet is itself, after all, both an asset and a tool for increasing shareholder value. To the extent it helps us communicate the characteristics of our core soft drink syrup and concentrate business—tremendous cash flow; high margins; neither capital- nor labor-intensity; boundless potential, especially outside the United States—it serves both those functions well.

The Coca-Cola Company is not, of course, unique in its use of these approaches to the problem of creating appropriate capital structures for related but distinct businesses. Many other corporations are developing similar strategies to fit their business mixes, financial policies and shareholder expectations.

The “bottom line” is one of the pervasive metaphors of our time, but the bottom line is not what it used to be. In the post-conglomerate era, the bottom line is total return to shareholders. In management’s efforts to improve that total return, one of the most obvious and appropriate places to start is with the structure of the corporation itself.